Document Information

Analyzed document	Marketing Management.pdf (D165737231)
Submitted	2023-05-03 08:47:00
Submitted by	Mumtaz B
Submitter email	mumtaz@code.dbuniversity.ac.in
Similarity	10%
Analysis address	mumtaz.dbuni@analysis.urkund.com

Sources included in the report

W	URL: http://www.distanceeducationju.in/pdf/mcom2.pdf Fetched: 2021-11-04 10:05:43	150
SA	**Marketing Management_compressed.pdf** Document Marketing Management_compressed.pdf (D127612808)	1

Entire Document

MARKETING MANAGEMENT

DEP SYLLABI-BOOK MAPPING TABLE Marketing Management Syllabi Mapping in B ook Section-I Marketing Concepts and Orientations, Marketing Tasks, Marketing in Modern Context. Strategic Planning, Marketing System & Marketing Environment, Marketing Planning & Marketing Process. Marketing Information System: Concept and Components. Consumer Behaviour: Factors Influencing Consumer Buying Behaviour, Buying Process. Organising for Marketing, Marketing Implementation & Control. Section-II Market Segmentation & Targeting. Product Decisions: Product Mix, Differentiation & Positioning, New Product Development, Consumer Adoption Process, Product Life Cycle and Strategies, Branding Pricing Decisions: Objectives, Factors Affecting Pricing Decisions, Pricing Methods, Pricing Strategies. Section-III Channel Decisions: Channel Design and Channel Management Decisions, Promotion Decisions: Promotion Mix, Advertising, Sales Promotion, Public Relations. Unit 1:Fundamentals of Marketing (Pages 5-25) Unit 2: Marketing Environment and Marketing System (Pages 27-45) Unit 3: Marketing Planning and Control (
Pages 47-64) Unit 5: Marketing Information (Pages 77-90) Unit 6: Consumer Behaviour (Pages 91-112) Unit 4: Organizing for Marketing (Pages 65-74); Unit 3, 3.4 Marketing Implementation and Control (Pages 55-61) Unit 7: Segmentation and Targeting (Pages 113-128) Unit 8: Overview of Product Management (Pages 129-234)

CONTENTS INTRODUCTION 1 MODULE – 1

Pricing Cues 8.12.8 Consumption and Pricing 8.12.9 Price Sensitivity 8.13 Channel Design and Channel Management Decisions 8.13.1 Channel Design 8.13.2 Channel Management 8.14 Promotion Mix 8.14.1 Non-traditional Methods of Communication 8.14.2 Sponsorships 8.14.3 Exhibitions 8.14.4 Word of Mouth Promotion 8.15 Advertising 8.15.1 How Advertising Works 8.15.2 Identify and Understand the Target Audience 8.16 Public Relations 8.16.1 Functions of Public Relations 8.16.2 Publicity 8.16.3 New Releases 8.17 Sales Promotion 8.17.1 Growth of Sales Promotion 8.17.2 Effects of Sales Promotion 8.17.3 Major Sales Promotion Techniques 8.17.4 Sales Promotion Objectives 8.17.5 Evaluating Sales Promotion 8.18 Sales Force Marketing 8.18.1 Problems of Sales Management 8.19 Summary 8.20 Key Terms 8.21 Answers to 'Check Your Progress' 8.22 Questions and Exercises 8.23 Further Reading
Self-Instructional Material 1 Introduction NOTES INTRODUCTION According to Peter Drucker, "Business has only two functions – marketing and innovation." Marketers concern themselves with acquiring and retaining customers, who are the lifeblood of an organization. They attract customers by learning about potential needs, helping to develop products that customers want, creating awareness, and communicating benefits; they retain customers by ensuring that they get good value, appropriate service, and a stream of future products. The marketing function not only communicates to the customer, but also communicates the needs of the customer to the company. In addition, it arranges and monitors the distribution of products and/or services from the company to the customer.

100%	MATCHING BLOCK 2/151	SA	Marketing Management_compressed.pdf (D127612808)

The aim of marketing is to understand the customer so well that the product or service fits him and sells itself.

95%	MATCHING BLOCK 5/151	W	

The aim of marketing is to understand the customer so well that the product or service fits him and sells itself.

There is an urgent need for a marketing book which goes beyond defining concepts and delineating steps. There are innumerable books in the area of marketing. Most of them describe steps after steps of processes which should supposedly help students and practitioners in practicing marketing. This rarely happens as the reader is trapped in the quagmire of examples and illustrations. The authors never get to the stage of suggesting any strategies to the reader. The reader gets to know definitions of a few terms and names of a handful of companies, but that is all about it. This textbook is lucid, conversational, and often imbued with passion. Each line of the book has been written with the purpose of making it striking and memorable. The text seeks to explain fundamental principles of each topic in a lucid manner, avoiding complicated and often unnecessary jargon and examples. Instead, the emphasis is on describing the essentials of each topic sequentially. However, there are no prescribed steps for drafting a strategy, nor are there descriptions for the same, as the authors believe that such exhaustive lists simply cannot exist. It needs to be mentioned that if cursory comparisons were made between books in the area of marketing, the chapter titles of this book would be the same, with only minor differences, if any. The reason for this is that writers cannot dispute the existence of concepts like segmentation, targeting, positioning, or the 4Ps. The so-called innovations that are often suggested in the area of marketing merely paraphrase the same principles. For instance, a noted management thinker recently introduced the 4 As instead of the 4 Ps. Availability was one of the factors that made its way into this classification. But this merely rephrases distribution that has always been a crucial part of any marketing strategy. Similarly, Affordability relates to Pricing strategies, Awareness relates to Promotion etc. Obviously, a good marketing strategy would consider the right pricing, promotion, product et al. Therefore, the discipline needs more writers who refrain from explaining concepts and inventing new jargons. It's high time more people took up the cause of how to implement, what works where, and why should some strategy be practiced, besides explaining what the best in the business are doing. This is being attempted in this book.
MODULE - 1
4 Self-Instructional Material Fundamentals of Marketing NOTES
Self-Instructional Material 5 Fundamentals of Marketing NOTES UNIT 1 FUNDAMENTALS OF MARKETING Structure 1.0 Introduction 1.1 Unit Objectives 1.2 Marketing Concept and Orientation 1.2.1 Marketing Concept 1.2.2 Marketing Concept versus Production Concept 1.2.3 Limitations of the Marketing Concept 1.2.4 Marketing Orientation 1.2.5 Profile of Marketing Oriented Organizations 1.2.6 Marketing Orientation and Business Performance 1.3 Marketing Tasks 1.3.1 Segmentation, Targeting and Positioning 1.3.2 Marketing Mix 1.3.3 Characteristics of an Effective Marketing Mix 1.3.4 Criticism of the 4Ps Approach to Marketing 1.4 Marketing in the Modern Context 1.4.1 The Service Concept 1.4.2 The Experience Concept 1.5 Strategic Planning 1.5.1 Avoiding Limitations 1.6 Summary 1.7 Key Terms 1.8 Answers to 'Check Your Progress' 1.9 Questions and Exercises 1.10 Further Reading 1.0 INTRODUCTION According to

the
American Marketing Association (AMA),

100%	MATCHING BLOCK 3/151	W

marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.'

The
term developed from the concept of going to the market to buy or sell goods or services. Marketing can also be viewed as 'a set of processes that are interconnected and interdependent with other functions, whose methods can be improved using a variety of relatively new approaches.' With the help of marketing, companies create customer interest in products or services; generate strategy that underlies sales techniques, business communication and business development; build strong customer relationships; and create value for their customers and for themselves. With the customer at the core of business activities, it can be said that marketing management is one of the major components of business management. In this unit, you will learn about the fundamentals of marketing in great detail. 1.1 UNIT
OBJECTIVES After going through this unit, you will be able to: • Understand the concept and orientation of marketing,
with emphasis on both marketing and production concepts • Know the various marketing tasks, such as segmentation, targeting and positioning, and about an effective marketing mix
6 Self-Instructional Material Fundamentals of Marketing NOTES • Assess the role of marketing in the modern context • Learn what strategic planning is and its limitations 1.2
MARKETING CONCEPT AND ORIENTATION 1.2.1 Marketing Concept Customer needs are discovered and the organization's processes are orchestrated to serve those needs truthfully. A company practicing the marketing concept achieves corporate goals by meeting its customer needs better than its competitors.
In a marketing oriented company all activities are focused upon providing customer satisfaction. The company understands that the achievement of customer satisfaction is dependent on integrating company-wide efforts. The belief that customer needs are central to the operation of the company runs through production, finance, research and other departments. Decisions are taken in these departments keeping in consideration
the impacts that the decisions will have on the customers. The role of marketing is to champion the cause of the customer and to orient the whole organization towards serving customer needs.
The management must believe that corporate goals can be achieved only through satisfied customers.
Every employee in an organization is a marketer Marketing is not the sole prerogative and responsibility of the marketing department in an organization. Each department, in fact every employee of an organization, primarily performs the function of a marketer. His main job is to convey a consistent image of his organization, whether it is to the internal stakeholders (employees, shareholders), or to the external stakeholders (customers, public). The company should realize that every interaction of any of these stakeholders with any employee of an organization is decisive for the ultimate fate of the organization. Internal communication Marketers need to communicate formally and informally with people in other departments in their organization more often.
For most companies the marketing department is the first and the main source of knowledge about the customer. But when marketers try to share their insights with other departments, the information often ends up being ignored or misunderstood. The problem lies with how often and in what manner the marketing department communicates with other functions in the organization. Marketers who interact with their non-marketing colleagues fewer than ten times a week tend to have their work undervalued by people in other departments. The reason is that contacts fewer than ten times a week – whether formal or informal, spoken or written – means that the marketer has not been in communication enough to learn what information is needed by others in the company, or how and when it should be presented. Marketing managers who have infrequent contacts with their non-marketing colleagues do not develop the kind of understanding they need in order to
provide the right information
at the right time and in the right
format. But

the increased value associated with boosting the frequency of communication begins to level off at about 25 times a week. Therefore marketing managers should strive to communicate between 10 and 25 times. In fact, marketing managers who communicate with their non-marketing colleagues more than 40 times a week also run the risk of having their work undervalued by other departments. Non-marketing managers often receive a flood of information like daily sales reports by product and market. They cannot review all this data or think about it. A deluge of communication confuses and eventually alienates the receiver.

 All types of communications like individual and group meetings, phone calls, faxes, mails, voice mails, memos and even a chat in cafeteria are counted. But the mix between and formal and informal communication matters. A 50-50 mix of formal and informal communications is optimal for getting the marketers' message across.
Formal communications
are useful because they are
verifiable, and in situations where two departments have different styles, a formal procedure for communication can reduce conflict. Informal communication allows people to exchange critical information unlikely to be found in a real report, such as the "real" reason why a customer defected. They can also help clarify and give meaning to what is said in more formal communications.
And they give the opportunity to
people to ask "dumb" questions which they otherwise would not. The spontaneous nature of informal communications also
does not give participants the time to develop politically motivated opinions. 1.2.2
Marketing
Concept versus Production Concept A competing philosophy is production orientation. This is an inward looking orientation. Management becomes cost focused. They try to attain economies of scale by producing a limited range of products in ways that minimize production costs. The objective is cost reduction for its own sake. In production orientation, business is defined in terms of products that the company is making. The management does not define business in terms of serving particular needs of customers.
Production Capabilities Manufacture Product Aggressive sales effort Customers FIGURE 1.1 PRODUCTION ORIENTATION Customer Needs Potential Market Opportunities Marketing Products and Services Customers FIGURE 1.2 MARKETING ORIENTATION
The business mission is focused on current production capabilities.
For instance, film companies defining their business in terms of the product produced, which means that they would be slow to respond when consumers shift the way they spend leisure time, the
demand for watching cinema would decline. The
purpose of the firm is to manufacture products and aggressively sell them to customers. When customers need change, production oriented companies are not able to sense them and they continue to produce products and services which no longer serve the needs of the customers. But even when they are able to sense such changes in customer needs, they are so convinced about the superiority of their offerings, that they refuse
to
make a departure. Marketing oriented companies instead focus on customer needs. Products and services are just considered as means to serve the needs of the customers. Change and adaptation are endemic in marketing oriented companies. Changing needs present potential market opportunities which the company strives to serve with new products and services. Within the boundaries of distinctive competencies, market driven companies seek to adapt their product and service offerings to the demands of current and latent markets. They get close to their customers so that they understand their needs and problems. Selling concept There is also an implicit contradiction between marketing and selling. Marketing involves gauging a customer's requirements and designing a product or service to serve that

requirement. Once the company has designed and made a product according to customer's requirement, it only needs to be made available to the customer. The product or the service sells itself. But when a product or service is not designed and made according to a customer's exact requirements, a customer has to be persuaded to believe that the product or the service meets his requirements. This is selling. Selling is largely a wasteful activity. It consumes a lot of organizational resources, as the company forces the product on the customer. And if a company manages to sell a customer a product or service that does not really serve his requirements, the customer is anguished and becomes suspicious of the company. Such a customer 'bad-mouths' the company. A company truly practicing marketing concept will not need to sell his product. Marketing makes selling redundant. Product concept Some companies become centered on constantly improving the product. Such companies prescribe to the philosophy of the product concept. Continuous attempts are made to improve the product and its quality, as it is believed that customers would always prefer to buy the product that is superior. This often results in a myopic focus on the product, without any attention on the other ways in which customers can fulfill their needs. This is called marketing myopia. The company is so focused on improving the product that it loses sight of the fact that the product is merely a way of fulfilling customer needs. In other words, the customer does not buy a product, he buys an offering that fulfills his needs. For instance, a customer watches television to fulfill his need for entertainment. He may consider watching movie in a theatre, a book or a music system as other ways of fulfilling his need for entertainment. The company, however, stays focused only improving the television. In India, several no-frills airline companies have started offering their services at low prices,
that
are comparable to the ticket prices of air-conditioned coaches of the Railways. Customers have started switching over to airlines as a preferred mode of travel, due to lesser time involved at little or no additional cost to them. Whether he travels by rail or by air, the customer is basically fulfilling his need for reaching a destination. Marketing myopia is dangerous, because it does not allow the company to explore other more effective and efficient ways of serving the customer need that its product is serving. It is often foxed by companies who devise better ways of serving the same customer need. Since customers do not have any attachment to the product, they desert the company and adopt the new way of serving his need. The myopic company is left alone, clinging to
his product. 1.2.3 Limitations of the Marketing Concept Marketing concept as an ideology Critics recognize the importance of customer orientation but ask why after decades of trying has the concept not been fully implemented. They argue that there are other valid considerations that companies must take into account when making decisions (for instance, economies of scale) apart from giving customers exactly what they want. There has to be a compromise between the satisfaction of customers and achievement of other company requirements. Marketing and society: The societal concept The marketing concept focuses on individual market transactions. Since individuals heavily weigh their personal benefits while discounting the societal impact of their purchases, adoption of marketing concept will result in production of goods which do not adequately correspond to societal welfare. Providing customer satisfaction may simply be a means to achieving a company's profit objectives and does not guarantee protection of customer welfare. Marketing orientation does not guarantee welfare of the customer but it does ensure profits for the firm.

Self-Instructional Material 9 Fundamentals of Marketing NOTES Marketing as a constraint to innovation Marketing research discourages major innovations. Relying on customers to guide development of new products has severe limitations. This is because customers have difficulty articulating needs beyond the realm of their own experiences. This suggests that the ideas gained from marketing research will be modest compared to those coming from the scientific discoveries of R&D laboratories. Particularly for discontinuous innovations, the role of product development ought to be far more proactive. Technological innovation is the process that realizes market demands which were previously unknown. Effective utilization and exploitation of technology in developing new products is at least as important as market need analysis. But this criticism is not actually directed towards the marketing concept itself but towards an overdependence on customers as a source of new product ideas. Companies must not rely solely on the customer for new product ideas. New product development should be based on sound interface between perceived customer needs and technological research. Successful innovations are mostly based on good understanding of user needs and technologies available to meet those needs. 1.2.4 Marketing Orientation Market driven companies display customer concern throughout the business. All departments recognize the importance of the customer for the success of the business. In internally focused businesses, the convenience of the company comes first. If what the customer wants is inconvenient to produce, excuses are made to avoid giving it to the customers. Market driven businesses know how their products are being evaluated against competition by customers. They understand the choice criteria that customers are using to evaluate their offerings and ensure that their marketing mix matches those criteria better than competition. Internally driven companies assume that certain criteria, perhaps price and performance, are uppermost in all customers' minds. They fail to understand the real concerns of customers. They refuse to believe that different customers can have different concerns. Businesses that are driven by the market, base their segmentation analysis on customer differences that have implications for marketing strategy. Businesses that are focused internally segment by product (large bulldozers versus small bulldozers) and are vulnerable when customer requirements change, primarily because they never understood customer requirements in the first place. Market driven businesses recognize that expenditure on marketing research is an investment that can yield rich rewards through better customer understanding. They base their strategies on the knowledge of customers which is gleaned through market research activities. Market research drives the strategies and operations of market driven companies. Internally driven businesses see marketing research as a non-productive activity and prefer to rely on anecdotes and received wisdom. Market driven business welcome organizational changes that are bound to occur as an organization moves to maintain strategic fit between varying customer requirements and its strategies. Internally oriented companies cherish status quo and resist change. Market driven businesses try to understand competitors' objectives and strategies, and anticipate competitive actions. They make strategies to counter moves of competitors and when they initiate actions they always feature in competitors' probable reactions to them. Internally driven companies are content to underplay the competition. They live with the illusion that competitors cannot harm them ever. Marketing spend is regarded as an investment that has long term consequences in market driven businesses. Such companies invest in understanding customers. They invest in building brands based on their understanding of the customers. Internally driven companies view

10 Self-Instructional Material Fundamentals of Marketing NOTES marketing expenditure as superfluous that never appears to produce benefits, but the company has to incur them to be on par with competitors. They believe that customers will buy their products because they are superior solutions to their needs. They will not check if their assumptions about customers having particular needs are actually felt by the customers themselves, and whether their products and services are actually useful to them. Reality dawns on them only when their business starts faltering. In market oriented companies those employees who take risks and are innovative in serving customers in more effective ways are rewarded. Such companies understand the fact that most new products fail, and there is a reluctance to punish those people who risk their career championing a new product idea. Internally oriented business reward time serving, and ability to not make mistakes. They reward people who help in quelling disturbing news from the market about customers and competitors. This results in risk avoidance and continuance of status quo. Market driven companies search for latent markets – markets that no other company has exploited. Their people, systems, and processes are flexible enough to sense such markets and design appropriate products and services for them. Internally driven businesses are happy to stick to their existing products and markets. They are not close enough to customers to be able to identify their latent needs, and their people, systems, and processes are designed to serve only crudely expressed needs. Intensive competition means that companies need to be alert to the dynamics of customer needs and competitor moves. Market driven companies are sensitive, fast and flexible to be able to respond to changes in the market. Marketing oriented companies strive for competitive advantage. They seek to serve customers better than competition. Internally oriented companies are happy to produce me-too copies of offerings already in the market. Impact of marketers' commitments Commitments by marketers impact the company and the customers both. For the company it indicates the promise of delivery of its offering, while for the customer, it shapes expectations. Commitments must consider the short term and long term impacts on both the concerned stakeholders. Despite differences in their personal attributes, behaviors and styles, successful marketers excel in making, honoring and remaking commitments to customers. Marketing commitments take many forms from installing special machines to serve customer requirements, delivering an item at a particular time, positioning the product, to public statements. These commitments exert both an immediate and enduring influence on the company. A commitment to deliver an item sooner than it is normally done, exerts pressure on the production system of the company. When a company positions its offering, it implicitly chooses one market over another. When a company selects a target market, it is willing to forego important segments that may emerge in the future. When a marketer makes a commitment, it affects two distinct constituents: customers and the company of the marketer. The marketer has to anticipate the consequences of his commitments for both his constituents both in the short term and long term. In a market where buying criteria are still being established, it may be fatal to position the company's offering very narrowly. Selecting a celebrity to spearhead the marketing campaign of the company has consequences both for the short term and long term. The idea is that commitments made by marketers binds the company in some particular way for some time in future. Marketers should be able to think through these consequences. But when marketers find out that their commitments are holding the company back, they should replace the old commitments with fresh ones. Customers understand that commitments implicitly have some conditions attached to them and when conditions change dramatically, an old commitment should be replaced by a more rejuvenating one. Commitments

Self-Instructional Material 11 Fundamentals of Marketing NOTES should not bind the company in a manner that compromises its very survival. It is not as if the company is going back on its commitment, it is just that an antiquated commitment is being replaced by fresh one which is reflecting current realities. 1.2.5 Profile of Marketing Oriented Organizations z

Shared values and beliefs are necessary prerequisites for successful marketing orientation. Every employee in every department believes that business goals can be achieved only through heightened awareness of customer needs and a tireless zeal to serve those needs. Customer orientation cannot be drilled

in employees

overnight. Fables have to be created and circulated, extolling customer care. Top executives have to repeatedly demonstrate concern for customers in their strategic and operating decisions and their own behavior. People should feel proud and good about themselves that they go out of their way to serve customers. This can be a problem for long established companies that did not put the customer first. Such companies have to be patient. They should not expect their employees to change overnight from ignoring

customers to serving them.

z The second dimension is skills in understanding and responding to customers. Getting and keeping close to customers is important. Every employee, especially the top management should spend as much time as possible with customers. Normally front- line employees, like salespersons, are in touch with customers. They are in the best position to decide what is best for customers. A company can empower front-line staff to take appropriate decisions in favor of customers. But even when frontline employees are empowered, the best they can do is to serve customers better on a case-to-case basis. But most customer problems are related to company practices and systems. Frontline employees do send feedback but they are diluted by the time they reach decision makers. Moreover these employees cannot effectively transfer the anguish and frustrations that customers express over company's products, policies and practices. When decision makers stay in frequent contact with customers, they are able to experience the frustrations and anguish of customers first-hand. They can quickly take decisions to amend matters. z Market intelligence is important to an understanding of customers. Market orientation demands organization-wide market intelligence activities pertaining to current and future customer needs. The facts collected by market intelligence should be disseminated across departments. And there should be organization-wide responsiveness to such facts, especially if they are disturbing. Intelligence gathering includes not only customer needs and preferences, but also an analysis and interpretation of facts that influence these needs and preferences. Information gathering is not the exclusive responsibility of the marketing department. Individuals and departments throughout the organization, such as R&D engineers at scientific conferences, should gather information informally. z Information about customers can be disseminated throughout the company by formal and informal means. One company developed and circulated a newsletter to facilitate the spread of information. Another company's manager disseminates information by story telling. She told stories about customers, their needs, personalities and even their families. The idea is to have everyone from secretaries, engineers, production personnel to the chief executive to get to know customers. z Responsiveness means the need to select target markets, design and offer products that cater to current and anticipated needs of the target markets, and producing, pricing, distributing and promoting those products in a way that customers value. z There is a desire to serve customer needs better than competition. The reality of the marketplace should be aligned with assets and distinctive competencies of the company. When looking to enter new markets, companies should be aware of their inherent strengths and weaknesses and requirements of the new market.

12 Self-Instructional Material Fundamentals of Marketing NOTES z Organizational structure must reflect marketing strategy. As markets change, marketing strategy changes, and the structure and systems may require modifications to implement strategy. It will be futile to implement a new strategy reflecting greater customer concern with the old organizational structure. The vested interests of the old structure will thwart the initiative. z Implementation of the marketing strategy requires clear communication so that it is not undermined by those who deal with the customer first hand (for instance, price concession given by sales person for a premium product). It is important that the frontline employees buy into the new concept. But such commitment can neither be built by force nor by inducements. Heightened awareness to customer needs and pride in serving them can be generated in employees only gradually by letting them observe and know about other employees doing it. 1.2.6 Marketing Orientation and Business Performance Marketing orientation is based upon three measures: Customer orientation, competitor orientation and the degree of inter-functional coordination. Businesses with the highest marketing orientation have the highest profitability and those with the lowest marketing orientation have the second highest profitability. Business may achieve some success through a low cost strategy though not the profit levels of high market orientation businesses. In non-commodity businesses, relationship between marketing orientation and business performance is linear, with the business displaying the highest level of marketing orientation achieving the highest levels of profitability and those with the lowest scores on marketing orientation having lowest profitability. There are four distinct groups of companies with different degrees of customer orientation: z In the first group, marketing is a function with the prime responsibility for identifying and meeting customer needs. Marketing is a guiding philosophy for the whole organization. It is not confined to the marketing department nor is it merely a support for sales efforts. z In the second group, marketers believe that marketing is about identifying and meeting customer needs but they also believe that marketing is restricted to what the marketing department does. z In the third group, the primary function of marketing is supporting sales and promotion efforts of the company. Marketing is confined to the marketing department and has little to do with identifying and meeting customer needs. z The fourth group does not have an opinion about marketing. They manufacture products and try to sell them. They are uninitiated into marketing either as an all-encompassing philosophy or as a departmental function. The profitability of companies that are guided by marketing philosophy and practice customer orientation are highest. As the role of marketing becomes less pervasive, the profitability of the company decreases. The conclusion is that marketing should not be seen as merely a departmental function but as a guiding philosophy for the whole organization. And there is a strong association between marketing orientation and business performance. 1.3 MARKETING TASKS 1.3.1 Segmentation, Targeting and Positioning Segmentation Customers in a market vary widely in terms of their level and sophistication of need, in the way they would like the product to be delivered to them, in their ability and willingness to Check Your Progress 1. Define what marketing is. 2. Why is marketing considered a critical activity for businesses? 3. What is the importance of formal communication in marketing? 4. Why is marketing myopia considered a dangerous concept? 5. Why do marketing-driven companies prefer to tap into latent markets? 6. What are the three measures on which marketing orientation is based?

Self-Instructional Material 13 Fundamentals of Marketing NOTES pay a certain amount for getting their needs satisfied, and their most preferred method of receiving communication from the company. All customers in a market cannot be served by a single marketing mix. Although each customer is different from the other in some way or the other, it is not economically viable to have a tailored marketing mix for each customer. Segmentation is the process of clubbing together similar customers in a group, so that they can be served by a marketing mix especially designed for the group or segment. A company can continue to segment its market into smaller and more homogeneous groups and design special marketing mixes for them. The idea is that more homogeneous the segment, more appropriate will the marketing mix be for every customer in the segment. Segmentation can be used as a vehicle for entering a market. An entrant can segment the existing market in a way which is not being done by incumbents. The entrant can serve the carved out segment with an appropriate marketing mix. Target markets In any market, there are normally

many segments. A company may not have the resources and the capabilities to design marketing mixes to serve all the segments. A company will decide to serve one or more segments depending upon its capabilities and resources. The segments that a company chooses to serve by designing special marketing mixes are called target markets. Positioning In most markets there will be many companies providing the same basic solutions to customer needs. The customer has to select one provider among them. The offering of a company has to be distinct, so that customers are able to make a choice by matching their requirements with the offerings of various providers. Positioning is the process of creating a distinct offer and communicating it to the customer. Positioning is created by designing a marketing mix which is suitable for the target market but is different from marketing mixes of other providers. The chosen marketing mix has to be then communicated to the customers. The smaller and more homogeneous the target market is for which a marketing mix is designed, the stronger will be the positioning, i.e. the fit between the marketing mix of the company and requirement of the customers of the target market will be stronger. The process of positioning is continuous in nature and it should always be proactive because new needs and competitors keep cropping up. 1.3.2

98%	MATCHING BLOCK 4/151	W

Marketing Mix Marketing mix is a particular combination of the product, its price, the methods to promote it, and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving

customers. Managers must manage these 4Ps in a way that they satisfy customer needs better than competition. Decisions regarding marketing mix form a major aspect of implementation of the marketing concept. Product Product decision

100%	MATCHING BLOCK 6/151	W

involves deciding what goods or services should be offered to customers. The product

or service serves the basic need of the customer.

100%	MATCHING BLOCK 7/151	W

The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product. 14

Self-Instructional Material Fundamentals of Marketing NOTES

83%	MATCHING BLOCK 8/151	W

An important element of product strategy is new product development. As technologies and tastes change, products become out-of-date and inferior to competition. So companies must replace them with new designs and features that customers value. The challenging task is to include the latest available technologies and solutions to the latest needs of the customer in a company's product. Product decisions involve choices regarding brand names, warranties, packaging and services which should accompany

the product offering. Price Price is the cost that customer is willing to bear for the product and the way it is made available to him. Price represents on a unit basis what the company receives for the product which is being marketed. All other elements of the marketing mix represent costs. Marketers need

95%	MATCHING BLOCK 9/151	W

to be very careful about pricing objectives, methods to arrive at a price and the factors which influence setting of

a

92%	MATCHING BLOCK 10/151	W

price. The company must also take into account the necessity to give discounts and allowances in some transactions. These requirements can

influence the level of list price chosen. If discounts and concessions have to be given in certain transactions, the list price should have negotiation margin built in it. Payment periods and credit terms also affect the real price received in any transaction. These kinds of decisions can affect the perceived value of a product.

59%	MATCHING BLOCK 11/151	W

In comparison to other elements of the marketing mix, price can be changed easily. But an ill-considered change in price, can change customer perceptions about the value of the marketing mix. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. If the price of a product is reduced, customers may start regarding it as an inferior quality product.

If a company raises price, customers may consider it a high quality product, but there is also the risk that customers may regard

100%	MATCHING BLOCK 12/151	W

the price too high for the value that they are getting from the product.

Price change, though easy to make, should always be done taking into consideration the effect the change will have on the attractiveness or otherwise of the marketing mix. Promotion Decisions have to be made with respect to promotional mix: advertising, personal selling, sales promotions, exhibition, sponsorship and public relations.

100%	MATCHING BLOCK 13/151	W

By these means the target audience is made aware of the existence of the product and the benefits that it confers to customers. The type of promotional tool used has to gel with other elements of

the

87%	MATCHING BLOCK 14/151	W

marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media would be wasteful as the number of customers are far too small, and it would be ineffective as the customer will not make a decision to buy such an expensive product based on little information provided in an advertisement.

He will require extensive information to be able to make a choice. But an inexpensive product bought
by the mass market can be advertised on the mass media. Even the nitty-gritty of a chosen promotional tool should enhance the marketing mix. The media used, the celebrity chosen to endorse the product, the training provided to the salesperson etc. should reflect and reinforce other elements of the marketing mix. Normally the company makes its first contact with customers through its promotional efforts. A customer
does not buy a product unless he has formed certain expectations about the product. Promotion shapes
the expectations of customers about the product. Used rightly, promotion can raise customer expectations and drive sales. But if a product is hyped
and unrealistic,
though customer expectations are raised, he will be disappointed when he actually
Self-Instructional Material 15 Fundamentals of Marketing NOTES
uses the product and does not find it up to his expectations. Such disappointments engender negative word-of-mouth and a permanent dent in the company's reputation.

96%	MATCHING BLOCK 15/151	W

Place Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers, and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely costly and cumbersome if the manufacturer had to set all the infrastructure needed to manage the transfer of goods to the customers. The manufacturer has to manage and structure relationships with these intermediaries in such a way that interests of the manufacturer and intermediaries are served. Distribution channels perform

84%	MATCHING BLOCK 16/151	W

three distinct functions. They transfer products from the manufacturer to the customers, they pass information from

68%	MATCHING BLOCK 17/151	W

from the manufacturer to the customers, and they retrieve payment from the customers to the manufacturer.

It is possible to segregate these three functions as alternate means of delivering products, passing information and collecting money are developed. In internet marketing, information is provided on the manufacturer's web site, the product is sent from the manufacturer's store to the customer through courier service, and payment is collected by banks through credit cards. A company should have an open mind while designing its distribution strategy. The three functions have to be performed but it is not essential that all the three functions are performed by one channel. Three separate channels can perform a function each, depending on each channel's efficiency and effectiveness in carrying out the function. 1.3.3

Characteristics of an Effective Marketing Mix z The marketing mix should match customer needs. The target customer has to be understood in terms of his level of need, his ability and willingness to pay a particular amount for his needs being served, the way he would like the product to be delivered, and his most preferred method of accessing information from the company. Once the target customer is identified and understood, marketers need to understand how he chooses between rival offerings. A company needs to understand the choice criteria that the customer uses in evaluating offerings of different companies. The marketing mix should reflect the customer's choice criteria. Customers evaluate products on both economic and psychological criteria. Economic criteria include factors such as performance, availability, reliability, durability and productivity gains to be made by using the product. Psychological criteria are self image, pleasure, convenience and risk reduction. An analysis of customer choice criteria will reveal

a set of key requirements that must be met in order to

succeed in the marketplace. The company's marketing mix should meet these requirements better than competitors. z Marketing mix is the true source of competitive advantage. Competitive advantage is derived from decisions about the four elements of the marketing mix. A company may use product features to provide customer benefits in excess of what the competition is offering. A company can use advertising as a tool for competitive advantage when product benefits are particularly subjective and amorphous in nature. Advertising for perfumes is critical in preserving the exclusive image established by brands. The size and quality of sales force can act as a competitive advantage. Distribution decisions need to be made with the customer in mind, not only in terms of availability but also with respect to service levels, image of the outlet and customer convenience. z The marketing mix should be well blended to form a consistent theme. If the product gives superior benefits to customers, the price which sends cues to customers regarding

16 Self-Instructional Material Fundamentals of Marketing NOTES quality should reflect those extra benefits. All the elements of the promotional mix should be designed with the objective of communicating a consistent image. All the elements of the marketing mix should reinforce each other to strengthen the positioning of the product in the marketplace. z The marketing mix should match corporate resources. It is always tempting to provide to the customer the highest quality product at the lowest price, in a way most convenient to him, with the offering promoted in the most sophisticated way. But such a marketing mix would be very costly to provide. The choice of the marketing mix will be constrained by the financial resources and internal competencies of the company, and the customers' willingness and ability to pay for such an exalted marketing mix. 1.3.4 Criticism of the 4Ps Approach to Marketing

91%	MATCHING BLOCK 18/151	W

Marketing mix oversimplifies the realities of the market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services, people are often the service itself. The process or how the service is delivered to the customer is a key part of the service. The physical evidence, like the check-list in car service or a surgeon's uniform, give signals to customers about the quality and reliability of the service.

In industrial markets success does not come solely from manipulation of the marketing mix components, but from long term relationship building whereby the bond between the buyer and the seller become so strong that it effectively acts as a barrier to entry for outsuppliers. This phenomenon exists to such an extent that industrial buyers are now increasingly seeking long term relationships with suppliers. These activities are not captured in the marketing mix approach. But there is no reason why these extensions cannot be incorporated within the marketing mix framework. People, process and physical evidence can be incorporated in 'product' and long term relationship building can be incorporated in 'promotion'. The strength of the marketing mix or 4Ps approach is that it allows companies to focus on a tangible aspect of concern to the customer. The company can work to improve an element or can redesign the element to synchronize with other elements. Marketing mix converts marketing from an abstract discipline into something more concrete. 1.4 MARKETING IN THE MODERN CONTEXT 1.4.1

The Service Concept Customers buy services, not products. Therefore marketers should adopt a service model of marketing instead of selling the title to the products. Customers buy products for the services that they provide. When a customer buys a car, he is buying the service of transportation. When another customer buys an air-conditioner, he is essentially buying cool atmosphere. Some customers may buy a car or an air-conditioner for the prestige that the ownership of these products provide, but for most products the main reason for the customers buying them is the service that these products provide. Marketers have known this fact for long but have not ceased to insist on customers buying their products. Their focus has been to ensure transfer of ownership from the company to the customer. But does the customer really want the ownership of the product, or will it be sufficient for him if he gets the required service but ownership of the product remains with company? A company and its customers would be greatly benefited if the company took upon itself to provide the service that its product is supposed to provide. Take an example. A potential customer is to build an office premise. The air-conditioner company proposes to take

Check Your Progress 7. Define what market segmentation is. 8. What do you understand by product decision? 9. Why is the 'place' factor an important aspect of marketing mix? 10. What are distribution channels? 11. What are the limitations of the 4Ps approach to marketing, with emphasis on services?

Self-Instructional Material 17 Fundamentals of Marketing NOTES

responsibility for maintaining desired temperature in the premise for 50 years or for the lifetime of the premise for an annual fees. If the customer agrees to this proposal, he will not have to make a huge upfront payment for buying the air conditioners. He does not have to bother about day to day maintenance of the equipment or its replacement. All he has to do is to pay an annual fees and get the cool ambience that he desires. The air conditioner company gets an assured stream of revenue for fifty years or more. The company selling the air conditioners does not spend any money on sales task with this company ever again. Since the equipment belongs to the company, it is responsible for its maintenance and it also pays for the electricity consumption of these equipments. Now this company has an incentive to design and build air conditioners which will require minimum maintenance and consume minimum electricity. Further the air conditioner company can get in collaboration with architects and builders to design the premise in such a manner and use such materials which will require less cooling. The air conditioner company can even share some construction cost as it will save a huge amount of money because of lesser electricity consumption. Another company with responsibility for lighting of the premise and under a similar contract can also join the collaboration and share the costs and benefits. The net result is that the same benefit that the buying of air conditioners gave, can now be had at a much lower price and with more profits for the air conditioning company only because the two parties got into a contract for provision of a service rather than selling a product. The same type of benefits as above can flow to buyers and sellers in most categories of products. The only hindrance is the mindset of the two parties and their unwillingness to experiment with this model. The model can be easily applied in businesses like automobiles, carpeting, furnishing, and for most consumer durable items. 1.4.2 The Experience Concept The marketer should create an experience around the product to make it memorable, and reaffirm it with cues at every customer interaction point. An experience occurs when a company intentionally uses services as the stage, and goods as props to engage individual customers in a way that creates a memorable event. While products and services are external to the customer, experiences are inherently personal, existing only in the mind of an individual who has been engaged on an emotional, physical, intellectual, or even spiritual level. No two people can have can have the same experience, because each experience derives from the interaction between the staged event and the individual's state of mind. Experiences have always been at the heart of entertainment business but experiences are not exclusive to entertainment. Companies stage an experience whenever they engage customers in a personal, memorable way. Airlines use the base service of travel as the stage for a distinctive en route experience that transforms air travel into a respite from the traveler's normally frenetic life. Business-to-business marketers create elaborate venues to sell their goods and services. While companies are staging experiences, most are still charging only for their goods and services. An event is created to increase customer preference for the commoditized products or services. The guests are not charged any admission fees. But if companies were to contemplate as to what they should be doing if they had to charge admission fees from customers, it would lead them to designing richer experiences. Some stores are already providing great ambience. Customers loiter around such stores for a long time but to be able to charge admissions from them, the stores have to stage a much richer experience. The merchandise mix would have to change more often - daily or even hourly. The stores would have to add demonstrations, showcases, contests, and other attractions to enhance the customer experience. Experience will have to be designed much like its product and service counterparts. Following design principles are helpful:

z

An experience should be built around a well defined theme. Customers organize the experience they encounter around the theme, and remember them for a long time. The

theme must drive all the designed elements and the staged experience towards a unified story line that captivates customers. There should be something distinctive about the store, instead of each store looking like the other with rows of products displayed. z To create desired impressions, companies must introduce cues that affirm the nature of the experience to the guest. Each cue must support the theme, and none be inconsistent with it. Impressions are what the customers carry back and the impressions are created by the cues provided to

him. z

Companies must eliminate anything that diminishes, contradicts, or distracts from the theme. Activities and behavior of employees, architecture of the place, instructions to customers, displays, and the smallest details should support the theme.

z

Customers purchase memorabilia as a physical reminder of an experience. Teenagers obtain T-shirts to remember a rock concert. One good test of a great experience would be whether customers are willing to buy some item

to help them remember the event

at a price higher than the normal price of that item. If companies find no demand for memorabilia, it means they are not staging engaging experiences. z The more senses an experience engages, the more effective and memorable it becomes. Savvy hair stylists shampoo and apply lotions not simply because the styling requires it but because they add more tactile sensations to the customer experience. 1.5

STRATEGIC PLANNING Strategic planning consists of the process of developing strategies to reach a defined objective. Strategic planning tries to create more desirable future results by influencing the outside world, or adapting current programs and actions so as to have more favourable outcomes in the external environment. Strategic planning provides overall direction to a company or give specific direction in such areas as: z Financial strategies z Human resource/organizational development strategies z Information technology deployments z Development projects z Marketing strategy An effective strategy will: z Have the capability to obtain the desired objective z Fit well both with the external environment and with an organization's resources and core competencies - it should appear feasible and appropriate z Have the capability of providing an organization with a sustainable competitive advantage z Prove dynamic, flexible, and able to adapt to changing situations z Suffice on its own - specifically providing value or favorable outcomes without the need for cross-subsidization Methodologies Most strategic planning methodologies depend on a three-step process (sometimes called the STP process): z Situation - evaluate the current situation and how it came about z Target - define goals and/or objectives (sometimes called ideal state) z Path - map a possible route to the goals/objectives Check Your Progress 12. What is the meaning of the service concept? 13. What do you understand by the experience concept?

Self-Instructional Material 19 Fundamentals of Marketing NOTES An alternative approach, although equally effective is called Draw-See-Think z Draw - what is the ideal image or the desired end state? z See - what is today's situation? What is the gap from ideal and why? z Think - what specific actions must be taken to close the gap between today's situation and the ideal state? z Plan - what resources are required to execute the activities? Situational analysis When developing Corporate strategies, analysis of the company and environment as it is at the moment and how it will be in the future, is very necessary, this is called the analysis phase of strategic planning. The analysis has to be executed at an internal level as well as an external level to identify all opportunities and threats of the new strategy. Mission statements and vision statements Organizations sometimes summarize

goals and objectives into a mission statement and a vision statement. Vision statement defines the purpose or broader goal for being in existence or in the business. It serves as a guide in times of uncertainty, vagueness. It is like guiding light. It has no time frame. The vision can remain the same for decades if crafted correctly. While mission is more specific in terms of objective and time frame of its achievement. To make the vision statement effective it needs to be aligned with the prevailing culture in that organization. Vision and the company's values go hand in hand. Features of an effective mission statement include:

z Clarity and lack of ambiguity z Unambiguity z Realistic aspirations, achievable z

Alignment with organizational values and culture, Rational z Time bound about achieving any goal or objective In order to become really effective, an organizational vision statement must become assimilated into the organization's culture. Leaders have the responsibility of communicating the vision regularly, creating narratives that illustrate the vision, acting as role-models by embodying the vision, creating short-term objectives compatible with the vision, and encouraging others to craft their own personal vision compatible with the organization's

overall vision. Why strategic plans fail In general, strategic plans can fail for two types of reasons: inappropriate strategy and poor implementation. Inappropriate strategies may arise due to: z Failure to define end states (objectives) correctly z Incomplete SWOT analysis with respect to the desired end state(s) z Lack of creativity in identifying possible strategies z Strategies incapable of obtaining the desired objective z Poor fit between the external environment and organizational resources infeasibility Poor implementation of a strategy may happen due to: z Over-estimation of resources and abilities z Failure to coordinate

20 Self-Instructional Material Fundamentals of Marketing NOTES z Ineffective attempts to gain the support of others or resistance z Under-estimation of time, personnel, or financial requirements z Failure to follow the plan The planning process can be viewed as a somewhat circular flow of topics and action steps, where the results from one step initiate study and action in the next step. However, the process does not necessarily always flow in one direction. Issues that arise in a particular step may cause the planning team to go back to an earlier step to do additional work. If desired, the order of the steps can even be altered to suit the particular needs of the planning team. The implementation step also does not end the planning process. Analysis of results could easily result in additional analysis or a change in strategic direction. The plan should be reviewed on an annual basis to verify that all the base assumptions are still valid and that the implementation plan is progressing according to expectations. Limitations of strategic planning Strategic planning is an involved, intricate, and complex process that takes an organization into the uncharted territory. It does not provide a ready to use prescription for success. In fact, it takes the organization through a journey and helps develop a framework and context within which the answers will emerge. Commitment One of the major challenges of strategic planning is ensuring commitment at the top, because in some ways, strategic planning reduces executive decision-making power. It encourages involvement throughout the organization, and empowers people to make decisions within the framework defined by the strategic planning process. As a result, this shifts some of the decision making from the executive office to the participants. Strategic planning might inhibit changes, and discourage the organization from considering disruptive alternatives. Planning might inhibit creativity, and does not easily handle truly creative ideas. Control Strategic planning, if misused, might become a tool for gaining control over decisions, strategies, present, future, actions, management, employees, markets, and customers, rather than a comprehensive and integrated instrument for bringing the organization to its desired future. Public relations Strategic planning may be used as a tool to impress influential outsiders, or to comply with requirements for strategic planning imposed from the outside, such as accreditation requirements. Objectivity Strategic planning dismisses intuition and favors readily available, interpretable hard data, and assumes that all goals are reconcilable in a single statement of objectives. Politics Strategic planning might increase political activity among participants, by increasing conflict within the organization, reinforcing a notion of centralized hierarchy, and challenging formal channels of authority.

Self-Instructional Material 21 Fundamentals of Marketing NOTES 1.5.1 Avoiding Limitations Opportunistic planning Opportunistic planning allows organizations to be flexible and open to making changes to the strategic planning process, if it becomes necessary in the face of unexpected events and changes in the initial assumptions. Organizations need a good combination of formal and opportunistic planning. Organizations that rely exclusively on formal planning could trap themselves in unbearable rigidities. Planners as facilitators Planners should not plan, but serve as facilitators, catalysts, inquirers, educators, and synthesizers to guide the planning process effectively. Participation Organizations should encourage active participation of as many people as possible, engaging them in the ongoing dialogue, and involving them in the strategic planning process, to generate a feeling of ownership of the process and the outcomes throughout the organization. Creativity Using a series of incremental steps that build strategies and integrating them into the entire organization will help to adjusting the course of action of strategic planning with overall organizational vision and strategic issues, while allowing for creativity and flexibility for change. Flexibility Strategic tasks should be interpreted not as rigid hierarchical sequences of actions, but as a useful conceptual framework for addressing issues essential to the successful operation of the organization. 1.6 SUMMARY In this unit, you learnt that: • According to
the
American Marketing Association (AMA),

100%	MATCHING BLOCK 19/151	W

marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' •

The
role of marketing is to champion the cause of the consumer/customer and orient the business towards serving customer needs.
It is very crucial that the business believes that corporate goals can be achieved only by satisfied customers. •
Marketing is not the sole prerogative and responsibility of the marketing department in an organization. In fact, every department and every employee is responsible in marketing management and must perform the duties of a marketer. • A balance of formal and informal communication must be effectively used by the marketer to put across his marketing message to internal (stakeholders, employees, management) as well as external customers (customers, government, NGOs). • In a production-oriented business, management is focussed on costs.
They try to attain economies of scale by producing a limited range of products in ways that minimize production costs. •
In a marketing-oriented business, management is focussed on customer needs. They believe that products and services are just considered as a means to serve the needs of the customers. Check Your Progress 14. List the various areas in which concepts of strategic planning can be implied? 15. What is a vision statement? 16. List the features of an effective mission statement. 17. What are the various circumstances in which a strategy can be poorly implemented?
22 Self-Instructional Material Fundamentals of Marketing NOTES • Marketing myopia is the concept of focussing mostly on constant product improvement, such that continuous attempts are made to improve product quality with the sole belief that customers will automatically buy a superior quality product. • Marketing orientation has the following limitation: Customers might have difficulty articulating their needs beyond the realm of their own experiences. Thus the ideas gained from marketing research will be modest compared with those derived from scientific research. • Marketing intelligence is important to an understanding of customers. It demands organization-wide market intelligence activities pertaining to current and future customer needs. This includes not only customer needs and preferences but an analysis and interpretation of facts that influence these needs and preference. • The different degrees of customer orientation are as follows: marketing as a guiding philosophy; marketing as a tool to identify and meet customer needs; marketing as a tool to support sales and promotion activities; and marketing as a departmental function. • Market segmentation is involved with how customers in a market vary widely in terms of their level and sophistication of need, in the way they would like the product to be delivered to them, in their ability and willingness to pay a certain amount for getting their needs satisfied and their most preferred method of receiving communication from the company. •
Positioning is the process of creating a distinct offer and communicating to the customer. It is created by designing a marketing mix that is suitable for the target market but is different from marketing mixes of other providers. •

72%	MATCHING BLOCK 20/151	W

Marketing mix is a particular combination of a product, its price, methods to promote and the ways to make the product available to the customer.

90%	MATCHING BLOCK 21/151	W

The elements of a marketing mix are intricately and sensitively related to each other. • The

experience concept is about the marketer creating an experience around a
product to make it memorable and reaffirm it with cues at every customer interaction point. •
Strategic planning consists of the process of developing strategies to reach a defined objective. It tries to create more desirable future results by influencing the outside world or adapting current programs and actions to have more favourable outcomes in the external environment. • Developing corporate strategies, analysis of the company and environment as it is at the moment and how it will be in the future is called the analysis phase of strategic planning. • A firm's success depends on the industry structure. The competitiveness of the industry affects the profitability of a firm. • While formulating the marketing strategy, the following aspects need to be remembered: coping with competition; attaining customer satisfaction; and competition from substitute products, new entrants, suppliers, customers and existing players. • Every decision of the company should be checked for its impacts on customers. 'What is in it for our customers in this decision' should be common refrain among executives taking either day-to-day or strategic decisions. 1.7 KEY TERMS • Market segmentation: It is the process of making sub-sets of a market made of people sharing one or more characteristics that make them demand similar products or services based on qualities of those products, such as price or function.
Self-Instructional Material 23 Fundamentals of

64%	MATCHING BLOCK 22/151	W

Marketing NOTES • Marketing mix: It is a particular combination of a product, its price, methods to promote and the ways to make the product available to the customer. •

Marketing myopia: It is the concept of focussing mostly on constant product improvement, such that continuous attempts are made to improve product quality with the sole belief that customers will automatically buy a superior quality product. • Marketing: According to
the
American Marketing Association (AMA),

100%	MATCHING BLOCK 23/151	W

marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' •

Positioning: It
is the process of creating a distinct offer and communicating to the customer. •
Strategic planning: It is the process of developing strategies to reach a defined objective. 1.8 ANSWERS TO 'CHECK YOUR PROGRESS' 1. According to
the
American Marketing Association (AMA),

100%	MATCHING BLOCK 24/151	W

marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' 2.

Marketing is
considered a critical activity for businesses for following purposes: • Customer needs are discovered and the organizational goals are aligned to serve those needs. • All activities are focused upon providing customer satisfaction. The cause of the customer becomes the core function. 3. Formal communication is important in marketing because it is verifiable, and in situations where two departments have different styles a formal procedure for communication can reduce
conflict. 4.

Marketing myopia is dangerous because it does not allow the company to explore other more effective and efficient ways of serving the customer need that its product is serving.
Since customers do not have any attachment to the product, they leave the company and adopt new products. The myopic company is left alone clinging to its product. 5.
Market-driven companies prefer to tap into markets that no other company has exploited (latent markets) because their people, systems, and processes are flexible enough to sense such markets and design appropriate products and services for them. 6. Marketing orientation is based upon three measures: customer orientation, competitor orientation and the degree of inter-functional coordination. 7. Market segmentation is involved with how customers in a market vary widely in terms of their level and sophistication of need, in the way they would like the product to be delivered to them, in their ability and willingness to pay a certain amount for getting their needs satisfied and their most preferred method of receiving communication from the company. 8.
Product decision

100%	MATCHING BLOCK 25/151	W

involves deciding what goods or services should be offered to customers,

because the product/service serves the basic need of the customer and

100%	MATCHING BLOCK 26/151	W

provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. 9.

100%	MATCHING BLOCK 27/151	W

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. 24

Self-Instructional Material Fundamentals of Marketing NOTES 10.

100%	MATCHING BLOCK 28/151	W

Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. 11. It

is said that marketing mix oversimplifies the realities of the

94%	MATCHING BLOCK 29/151	W

market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence, because in services, people are often the service itself. 12. The

service concept implies that
customers buy services, not products. Therefore marketers should adopt a service model of marketing instead of selling the title to the products. For example, when a customer buys a car, he is buying the service of transportation. 13.
The experience concept implies that a
marketer should create an experience around the product to make it memorable, and reaffirm it with cues at every customer interaction point. An experience occurs when a company intentionally uses services as the stage, and goods as props to engage individual customers in a way that creates a memorable event. 14.
Strategic planning provides overall, or specific, direction to a company in areas such as: • Financial strategies • Human resource/organizational development strategies • Information technology deployments • Development projects • Marketing strategies 15.

Vision statement defines the purpose or broader goal for being in existence or in the business. It serves as a guide in times of uncertainty
and vagueness. 16.
Features of an effective mission statement include: • Clarity and lack of ambiguity • Unambiguity • Realistic aspirations, achievable • Alignment with organizational values and culture • Rational • Time bound about achieving any goal or objective 17.
Poor implementation of a strategy may happen due to: • Overestimation of resources and abilities • Failure to coordinate • Ineffective attempts to gain the support of others or resistance • Underestimation of time, personnel, or financial requirements • Failure to follow the plan
Self-Instructional Material 25 Fundamentals of Marketing NOTES 1.9
QUESTIONS AND EXERCISES Short-Answer Questions 1. What are the essential characteristics of a marketing-oriented company? 2. Are there any situations where marketing orientation is not the most appropriate business philosophy? 3. To what extent do you agree with the criticisms of the marketing concept and the 4Ps approach to marketing decision-making? 4. Distinguish between differentiation and cost leadership strategies? Long-Answer Questions 1. Explain how the desire to become efficient may conflict with being effective. 2. What barriers may a marketing manager face when trying to convince other people within an organization that they should adopt the marketing concept? 3. Why is competitor analysis essential in the modern turbulent environment? How far is it possible to predict competitor response to marketing actions? 4. Discuss with examples ways of achieving a differential advantage. 1.10 FURTHER READING Gronroos, C., (1989), 'Defining Marketing: A Market-oriented Approach,' European Journal of Marketing, 23(1),52–60. Levitt, T., (1969), The Marketing Mode, New York, NY: McGraw-Hill. Peters, T. J. and R. H. Waterman Jr., (1982), In Search of Excellence: Lessons from America's Best Run Companies, New York, NY: Harper and Row.
Porter, M. E., (1980),
Competitive Strategy: Techniques for Analyzing Industries and Competitors, New York, NY: Free Press.
Self-Instructional Material 27 Marketing Environment and Marketing System NOTES UNIT 2 MARKETING ENVIRONMENT AND MARKETING SYSTEM Structure 2.0 Introduction 2.1 Unit Objectives 2.2 Economic Forces 2.2.1 Income 2.2.2 Inflation 2.2.3 Recession 2.2.4 Interest Rate 2.2.5 Exchange Rate 2.3 Technological Factors 2.3.1 Technologies for Nations 2.3.2 Technologies for Product and Services 2.3.3 Technologies for Business Models 2.4 Social-Cultural Factors 2.4.1 Values 2.4.2 Time-Starved Customers 2.4.3 Multiple Lifestyles 2.4.4 Changing Structures of Families 2.5 Demographic Factors 2.5.1 Adolescents 2.5.2 Youth 2.5.3 People between 35 and 45 2.5.4 People between 45 and 60 2.5.5 People above 60 2.6 Political-Legal Environment 2.7 Competitive Environment 2.8 Country Analysis 2.8.1 Identification of Strategy 2.8.2 Context 2.8.3 Performance 2.9 Marketing Systems 2.10 Summary 2.11 Key Terms 2.12 Answers to 'Check Your Progress' 2.13 Questions and Exercises 2.14 Further Reading 2.0 INTRODUCTION
A marketing-

91%	MATCHING BLOCK 30/151	W

oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses. The environment consists of various forces that affect the company's ability to deliver products and services to its customers. The micro-environment of the company consists of various forces in its immediate environment that affects its ability to operate effectively in its chosen markets. This includes

the

87%	MATCHING BLOCK 31/151	W

company's suppliers, distributors, customers and competitors. The macro-environment consists of broader forces that not only affect the company and the industry, but also other actors in the microenvironment. These shape the characteristics of the opportunities and threats facing a company and are factors that are largely uncontrollable by the company. 28

Self-Instructional Material Marketing Environment and Marketing System NOTES

The environment can affect the company in dramatic ways. It can have the best technologies, the best employees and the best of suppliers but it still fail miserably if factors like exchange rate, policies of the host government or changing needs of customers start to act against it. Similarly, a mediocre company can be spectacularly successful if the factors in the external environment start favouring its strategies and policies. It is imperative that companies keep a close watch over environmental factors that affect them and prepare adequately to face the emerging challenges.
In this unit, you will learn about the marketing environment and system in detail. 2.1 UNIT OBJECTIVES After going through this unit, you will be able to: • Understand the
economic forces, such as income, inflation, inflation, interest rate and exchange rate, which influence the marketing environment and system • Know the technological factors, such as for nations, products and services, and business models, which influence the marketing environment and system • Assess the socio-cultural factors, such as values, value of time, differing lifestyles and changing family structures, which influence the marketing environment and system • Review the demographic factors, such as, adolescence, youth, adults and elderly, which influence the marketing environment and system • Know the political-legal and competitive environments that influence the marketing environment and system • Learn how country analysis helps to identify and assess the national environment, in the context of strategy identification and policy performance • Review marketing systems and customer characteristics 2.2

80%	MATCHING BLOCK 32/151	W

ECONOMIC FORCES The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. 2.2.1 Income One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money.

The rise in the number of dual income families in several parts of the world, including urban India has led to a rise in the incomes for such families. This
has resulted in a
higher demand for lifestyle and luxury products. However, marketers should be wary of making generalizations while using
income
as indicator of consumer spending, as customers' propensity to spend depends on cultural factors as well. The proportion of money spent by a customer on various products also vary across cultures. Some products,
for
instance dishwashers, that are considered to be necessities in Western markets do not even fall into the consideration set of consumers
in the Indian markets. Therefore, despite having a higher income, customers will not spend on products that are not considered to be desirable. 2.2.2 Inflation

95%	MATCHING BLOCK 33/151	W

Inflation is an important economic indicator of an economy. Inflation refers to

an increase in prices without a corresponding increase in wages, resulting in lower purchasing power
Self-Instructional Material 29 Marketing Environment and Marketing System NOTES
of consumers.

95%	MATCHING BLOCK 34/151	W

An economy should try to achieve low rate of inflation. The

best way to achieve a low rate of inflation is to ensure that products and services are produced efficiently. When cost of production of products and services are low, they will be sold at lower prices and hence inflation will
be low.

An artificial way to reduce inflation is by restricting supply of money in the economy by raising the interest rates at which consumers and businesses can borrow money. There will be less demand and supply will be higher, forcing suppliers to reduce their prices. But this can only be a short-term approach because restricting the supply of money will reduce the outputs of businesses and level of economic activities. This will be dangerous to the economy. The effort should be to increase productivity and efficiency of all economic activities. Inflation rate is higher when costs of producing products or services go up, or when there is too much money chasing too few supplies, prompting suppliers to raise prices and earn higher profits. High inflation

rate decreases real wages, i.e., the customer can buy less

goods with his income because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. But if wages and incomes increase at a rate greater than inflation rate, customers' purchasing power will not be affected adversely. In inflationary times customers stock items to save themselves from further increase in prices and abandon their favorite brands to buy more economical brands. When costs of production go up, companies should try to withhold increasing prices for as long as possible because customers do not start valuing the product more because they are more costly. In the long run, companies will have to look for better methods of production and cheaper inputs so that cost of production can be brought down. And if inflation is because the supplies are less than the demand, the money supply can be restricted in the short run, but in the long run, companies will have to expand capacities and increase their supplies. 2.2.3 Recession Recession is a

81%	MATCHING BLOCK 35/151	W

period of economic activity when income, production, and employment tend to fall. Demand of products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001.

Marketing strategies to counter recession are: z Companies should improve existing products and introduce new ones. The idea is to reduce production hours, waste, and the cost of materials so that companies can offer products at lower prices. Recession increases the demand for products and services that offer good value at lower prices. Business buyers buy products that are economical and efficient, offer value, help them to streamline practices and procedures, and help them to improve their services to their customers. The idea should be to prompt consumers and business customers to buy more. The most potent way to end a recession cycle is to make it attractive for customers to buy more. z In recession, business buyers will postpone the purchase of new equipments and materials because they do not know if there will be demand for their products and services. Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. In recession, sales of replacement parts and other services may become an important source of income.

z

Companies should emphasize their top-of-the-line products and should promote product value. Customers with less to spend will look for demonstrated quality, durability, and capability to save time and money. High priced, high value items do well during recession.

z Companies

should understand that though there are specific causes that trigger recession, it is perpetuated because consumers and businesses become uncertain about future and are reluctant and scared to buy.

They want to save for the worst time that will descend

30 Self-Instructional Material Marketing Environment and Marketing System NOTES

on them. Companies selling to consumers have special responsibility during recession. Once consumers start buying, businesses will start buying automatically. Therefore companies selling to consumers should generate confidence in the consumers by offering them high quality products and services at reasonable prices and also extend credit to them. Companies should be prepared to do whatever it will take to make the consumers buy from them. 2.2.4

96%	MATCHING BLOCK 36/151	W

Interest Rate If interest rate of an economy is high, businesses will borrow capital at

a

100%	MATCHING BLOCK 37/151	W

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

higher than the interest

96%	MATCHING BLOCK 38/151	W

rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even in existing businesses operating costs would go up as their working capital requirements will attract higher interest rates.

Therefore companies will be able to produce products and services at higher costs and
will
perforce sell them at higher prices. Therefore, there will be inflationary tendencies if interest rates are higher for long periods. Further, consumers will have strong tendencies to save because of the prospect of earning higher interest rates from their deposits. High interest rates have detrimental effects on the economy. When the interest rate is lower, companies can get cheap capital, and
the
pressure to earn at a higher rate from their new businesses
is less.
Therefore new businesses are likely to be set up in low interest regime. Further companies are able to get their working capital at lower interest rate, and are able to produce products and services at lower costs. Companies are able to sell at lower prices and hence are able to attract larger number of customers.
Customers are also able
to get loans at lower interest rates and are hence able to buy products and services which otherwise they would not have been able to buy. When customers are able to avail loans at low interest rates, sale of expensive items like houses and cars go up. Customers do not have to save and accumulate to buy these products. They take loans, buy the products, and keep paying back the loans in small installments. Lower interest rate is one sure way to spur consumer purchases. Also consumers are not too keen to save because their money will not grow rapidly due to lower interest rate. They would
be more keen to
spend their money. And when they invest, they are more likely to do so in equity markets because they are more likely to get higher returns
there.
Therefore business will get impetus because finance in the form of equity capital will be available to them. 2.2.5 Exchange Rate Exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. It is more profitable to export when the currency of the exporting country is weaker than the currency of the importing country. But this advantage is nullified if materials and components are imported from a country whose currency is stronger.
A company
will run its most profitable operations when it exports its product to a country whose currency is stronger, and imports material and components from a country whose currency is weaker. Exchange rate has become more important when supply chains of most companies are becoming global in scope i.e. companies are locating their manufacturing and distribution centers throughout the world, depending upon the advantages of each location. A company may have located its manufacturing facility in a country, say India, because of advantages of lower labor cost. But if the Indian currency appreciates, this decision will not fare well, because exports from India will
be
become costlier to the importer. To minimize the adverse effects of exchange rate, a company will locate its manufacturing facilities in multiple locations throughout the world and have some extra capacity at each of the manufacturing locations. The company will export from manufacturing locations in countries whose currencies are weaker than the currencies of countries where they are being exported.
Check Your Progress 1. How does high inflation affect real wages? 2. List any two marketing strategies to counter recession.
Self-Instructional Material 31 Marketing Environment and Marketing System NOTES 2.3

96%	MATCHING BLOCK 39/151	W

TECHNOLOGICAL FACTORS New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed through out the world depending upon where these activities can be performed best. Companies will be able to make better products at lesser cost and will be able to

distribute them economically when supply chains become global. An economy's ability to generate wealth will be largely dependent upon the speed and effectiveness with they invent and adopt machines that improve their productivity. 2.3.1 Technologies for Nations Economies will

need to excel in both basic and applied research. Basic research attempts to expand the frontiers of knowledge but is not aimed at a specific problem. Economies which are well off should concentrate more on basic research because they can remain ahead of other economies only by creating new businesses through inventing new technologies

by basic research.

Developed economies should be ready to relinquish businesses they are currently excelling in, because other economies will catch up with them and the developed economies will not be able to charge premium prices for their products and services.

America had to relinquish manufacturing as other nations were able to manufacture high quality products at lesser prices. It should be ready to relinquish services now as other economies are becoming more proficient at providing services. Less developed economies should focus more on applied research and develop better products and services with existing technologies. 2.3.2

Technologies for Product and Services New products and services are possible because of new technologies. These help to increase revenues and profits of companies. At different times in history, technologies have created new businesses like automobile, railways, telephones, computers, etc. Currently

we are

seeing new products and services being developed by emerging technologies like internet, mobile connectivity, nanotechnology, genetic engineering, etc. These technologies are likely to fuel growth in the near future. 2.3.3 Technologies for Business Models But companies also use new technologies to do business differently and more effectively. Dell computers is able to sell its product directly to business customers because internet enables it to be in contact with its customers without incurring much expense. It gleans valuable information about its customers from the interactions it has with them. Dell uses these information to segment its market further and then

it

focuses its attention on the most profitable customers. Thus by using internet Dell is able to earn greater profits by serving only the most profitable customers. There are companies in fragrance and other business which have equipped their customers with design tools. The customers design their own products and services and the companies manufacture them. Through these tools these companies are able to lock their customers in long term relationship. Some other companies have used the power of internet to create virtual design teams. The members of the team are experts in different technologies and

they are

stationed in different locations. The team members interact through the new tools of information technology, like e-mail, chat rooms, video conferencing etc. It has been found that these virtual teams are able to design better products because best people can be put on these teams without constraints of location and

lot of interpersonal conflicts of real teams are avoided in virtual

teams. There are lot of other ways in which technologies like internet are impacting businesses. Therefore when evaluating new technologies companies should ask two questions – What new products

32

Self-Instructional Material Marketing Environment and Marketing System NOTES

and services can be produced by using these technologies, and how

the

technologies can be used to run businesses better. 2.4

100%	MATCHING BLOCK 40/151	W

SOCIAL-CULTURAL FACTORS Customers live in societies. A large part of being

94%	MATCHING BLOCK 41/151	W

of a individual is dependent on the society he resides he in. Social factors include attitudes, values, and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the products, the effectiveness of specific promotions, and how, where, and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence, and integrate into marketing plans. But it is important that marketers take into account social changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners which can make companies' current products and services totally redundant. 2.4.1 Values A value is a strongly held and enduring belief. The majority of people living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation, and how he behaves in social situations.

Values affect the goods that a customer buys and the ways he buys them. Customers themselves are part of organizations which are trying hard to become customer oriented. Customers who are conscientious marketers themselves will not tolerate ineffective products and sloppy behavior of marketers of other companies. In this manner companies are putting pressure on each other to become more customer oriented. Customers are increasingly developing global outlook as more and more of them are working in multinational companies and are traveling more frequently to countries which are alien to their own countries in political, economic, and social parameters. To cope in such an environment, people have become inquisitive, discriminating, and demanding. They carry these values as buyers too. They carry out detailed search and ask uncomfortable questions before settling on a brand. There is no guilt in making lives of marketers miserable. Things are not easy in their lives and they do not want to make it easy for the seller. When children are pressurized to excel and be in front in their formative years, they are not going to be easily swayed to marketers' rhetoric. Performance has been demanded from them in all his growing years and he will demand performance from companies who want to sell them. Societies and businesses have become competitive within themselves. The buyer will expect the same competitiveness from companies. He will not take less because no body takes less from him. Companies should learn to expect tough customers. 2.4.2 Time-Starved Customers Today, fewer customers say that expensive cars, designer clothes, are pleasure trips necessary components of a happy life. Instead they put value on nonmaterial accomplishments, such as having control over their lives, and being able to take
a
day off when they want. Dual-career families do not have time for each other, and most of them are unhappy, though they have all the trappings of
a
supposedly good life. A scarcity of time means that people will decrease the amount of time spent doing things they do not like doing. This means doing less housework and home maintenance, and dining out more. It also means paying more attention to brands names to make buying decisions quicker and easier. Customers who are constrained for time are likely to favor small shops over large ones, spend less time comparing prices, use technology to reduce transaction time, and patronize businesses that help them save time and make their life easier.
Self-Instructional Material 33 Marketing Environment and Marketing System NOTES
As work-life gets longer and more stressful, people are going to spend their leisure time recuperating and making themselves fresh and energized for work i.e. more and more people spend their leisure time getting ready for work. Casual Fridays and home offices are further blurring the boundaries between work and leisure. Spending time with the family is becoming the most prefered leisure activity. People will increasingly place more value on time than money. More employers will have to offer
time
off as an incentive. Companies which arrange holiday trips or provide leisure activities will have to
provide
something substantial for each member of the family. Even when on holidays or on leisure trips, people want everything to be planned meticulously, so that they can recuperate in a planned manner. There is no time to while away. 2.4.3

91%	MATCHING BLOCK 42/151	W

Multiple Lifestyles Lifestyle is a mode of living, i.e., it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes.

In the past, a person's profession defined his lifestyle. Today, a person can be a teacher and also a gourmet, fitness enthusiast, and so many other things. Each of these lifestyles is associated with different products and services and is a potential customer for companies. For example, for the gourmet, marketers will offer cooking utensils, wines, and exotic foods. The fitness enthusiast buys Nike shoes and special jogging outfits. Multiple lifestyles increase the complexity of consumers' buying habits. A person may
go on
holidays to exotic holidays and may spend a fortune to travel to distant and inaccessible places, but may dine in very ordinary restaurants. He may buy fast food for lunch but may wear the most expensive suits. People are more willing to indulge in their passions and live
the way
they want to live. There is no 'stereotype lifestyle'. This can be a nightmare for marketers. It is impossible
to
profile a customers in terms of occupation, or income, or place of residence, or education, and believe that he will buy a certain set of products and services. It is impossible to decipher that if a person has bought a certain product or service, he will also buy some other products too. It has become extremely difficult to categorize
a
person and expect that he is a potential customers for certain products and services, and not a potential customer for some other products and customers. A segment of just one customer may finally be becoming a reality. 2.4.4

94%	MATCHING BLOCK 43/151	W

Changing Structures of Families Multiple lifestyles have evolved because people can choose from a growing number of products and services, and most have the money to exercise more options. The growth of dual-income families has resulted in increased purchasing power. More women are working outside homes and this number is only going to increase. The phenomenon of working women has had greater effect on marketing strategies and initiatives of companies than any other social change.

As working women's earnings grow, so do their expertise, experience, and authority. Today's working women are very different from the working women companies targeted a decade back. They want different things in life – from their spouses, from their jobs, and from products and services they buy. The growth in the number of working women means an increase in dual-income families. Dual-income families have greater household income but they have less time for family activities. More working women has meant an increasing demand for time-saving devices and products, particularly for the kitchen. Their purchasing roles which defined the items traditionally bought by the man or the woman, are changing. Their purchasing patterns are also changing. Products like cars which were traditionally thought of as male products, are bought by women, and companies are responding to their new buyers by designing cars specifically for them and by employing more women in the sales force. Women are making major economic decisions either independently or equally with
their
spouse. Most women are not leaving important marketplace decisions to others. It is being discovered that cost is more prominent in decisions made by women, whereas quality is relatively more important
34
Self-Instructional Material Marketing Environment and Marketing System NOTES
to men. This will have important influence when companies design marketing mixes for products where the woman is the prime decision maker. In purchase of expensive and long- term items, women are active but they are likely to make decisions jointly with their spouses. Life experiences is an important factor in women's independence in long-term planning
and
decision making. Married women over the age of fifty are more likely to make decisions on their own than their younger counterparts. 2.5

98%	MATCHING BLOCK 44/151	W

DEMOGRAPHIC FACTORS Demography is the study people in terms of their age, gender, race, ethnicity, and location. Demographics are significant because people constitute markets. Demographics characteristics strongly

affect

100%	MATCHING BLOCK 45/151	W

buyer behavior. Fast growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted to the elderly. 2.5.1

Adolescents The new-age teens are marketers' delight. They do not earn but they are fond of spending, and most of them have their own budgets. They spend lavishly on clothes, eating out, going out, latest gadgets, and are very keen to catch on with their friends in terms of possessions and lifestyles. They do not feel guilty of spending their parents' money and put on real pressure on their parents to shell out money for them. They will put their parents in financial inconvenience but they will have their motorbikes and fanciful mobiles, and will hang out at eating joints, theatres, and malls. They are stylish and fashion conscious, and submit to peer pressure. They will latch
on to
the next hot item. They feel they need to have a life of their own, and it should not be denied to them just because they are not earning. 2.5.2 Youth
The current
youngsters are growing in a more media-influenced, brand-conscious world than their parents. They respond to advertisements differently and prefer to encounter those advertisements in different places. Companies have to take their messages to the places where these youngsters frequent, whether on the internet, in a cricket stadium, or television. The advertisements may be comical or may be disarmingly direct. But the advertisements should never suggest that the advertiser knows these youngsters better than they know themselves. These youngsters know what they want from their lives and the products and services they buy. They do not mind information reaching them but
they
will reserve their right to make their choices. They hate to be persuaded and influenced. Companies would do well to leave them alone to make their decisions. They will access and process desired information themselves, and will let their choice known to the marketers. For these youngsters anyone can be a star, and most of
themselves
count themselves as one. They believe that everyone deserves to have his say and own space. For them getting heard and becoming well known are not only easy, but a natural way to go about with their lives. They create their own web site, make a movie with their own webcam or digital camera, post their thoughts, pictures, and writing online,
and even be on television.
Since they are sure about themselves and know what they want, they prefer customized products and services. Companies are realizing that they have to provide something unique and deeply personal to win loyalty of current youngsters. 2.5.3 People between 35 and 45 People in the age group of 35 to 45 years are settled in their professions and have toddlers and growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put long hours at office and
they
have to juggle endlessly between their responsibilities as spouses and parents, and growing
Check Your Progress 3. How do new technologies help in conducting business? 4. How have dual incomes affected purchasing patterns?
Self-Instructional Material 35 Marketing Environment and Marketing System NOTES
responsibilities at work. They may also have old parents to look after. Parents may be staying with them or
they may be
living in different cities. Income of people in this group rises at a good rate and they are good spenders. Some of them may be buying their first cars but most of them will be thinking of upgrading their cars. Similarly, they will upgrade their household gadgets like refrigerators, televisions and kitchen appliances when better products come along. They are also open to new gadgets for themselves and their households. People in this age group want to live a good life and are constantly on buying spree to improve their lifestyles. They dress well,
will dine out frequently, and will

look for opportunities to go on holidays. These days they are also keen to buy houses very early in their lives. They also plan to retire early, and they plan their finances accordingly. They have a taste for good life, and they do not want their lives' pleasures to be disturbed by pressures of job. 2.5.4 People between 45 and 60 Some people in this age group will at the peak of their careers while some others will be
struggling to keep their jobs. Children become a major priority for people in this age group. Children are ready to go to colleges and professional schools,
and
some of these people will be willing to make sacrifices in their careers to avoid unsettling their children. People in this age group will spend less as they will be saving resources to fund the higher education of their children. They will also be worried about their own future and
will be
making last ditch efforts to put a retirement plan in place because they will not see many years of career left ahead of them. 2.5.5 People above 60 People in this age group will live on steady income. Some of them
will be living with their grown-up children and will be
part of their household. They will be contribute to the requirement of the joint household and
they will not be spending
much on themselves. The family looks after their requirements. Most of their money
will be spend
on buying gifts for their children and grandchildren. But quite a few of these people live alone, and are visited by their children infrequently. They maintain their own households and their major spending is on running their households. They have to spend a substantial part of their earnings on health related issues and domestic help. Sometimes their children also supplement their income. 2.6

POLITICAL-LEGAL ENVIRONMENT Political-legal environment provides the legal framework within which the marketing department has to function. The political-legal environment of

a

country is influenced by political structures and organizations, political stability, government's intervention in the business, constitutional provisions affecting businesses, government'

s

attitude towards business, foreign policy, etc. The viability of businesses depends upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavors due to fear of their infringing some laws. Stability of

the

government is a very important factor in a company's decision to locate its businesses in a country or a state. Businesses prefer

to

operate in countries where there is political stability and where rule of law prevails.

Businesses are very worried about the strength of the legal system of a country. They want to be sure that the judiciary is strong enough to force a party to a contract to abide by the tenets of the contract. Businesses feel helpless in countries where contracts cannot be enforced by the judiciary of the land or it takes excessive time or there is lot of hassles in the judicial proceedings.

Check Your Progress 5. Define what demography is. 6. What is the profile of people between 35 and 45 years?

Businesses need government regulations to protect the interests of society in general, innovators of new technology, one business from another, and consumers. Governments will need to provide an environment in which businesses can flourish. In turn, government needs businesses, because the marketplace generates taxes that support public efforts to provide essential services like health and education to their people. Governments also need businesses because they cannot produce everything that their people may require, and also because prosperity of societies depend on businesses to a very large extent. Governments and businesses need each other. The decentralization of power inherent in a private-enterprise system limits the might of government, which is very essential for survival of democracy. Governments would become all-powerful if all the economic activities were controlled by them. Every aspect of the marketing mix is subject to laws and restrictions. It is important that marketing managers and their legal assistants understand these laws and conform to them, because failure to comply with regulations can have major consequences for a company. It is also important that a company is able to sense trends and take corrective action before a government agency decides to act against the practices of the company. The players of tobacco industry have largely been reacting to governments imposing one sanction after another. They could definitely have anticipated some of these sanctions and been prepared to face them. The challenge is not simply to keep the marketing department out of trouble, but to help it implement creative programs to accomplish marketing objectives. It is all too easy and convenient for a marketing manager to say no to a marketing innovation that may actually entail little risk. An overly cautious manager can hold up sales of a desirable new product by warning that the package design could prompt a copyright infringement suit. Thus it is important that the marketing managers have a thorough understanding of
the laws of the land. 2.7

COMPETITIVE ENVIRONMENT The competitive environment consists the number of competitors a company faces, the relative size of competitors, and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it. Companies should be ready to encounter competitive environments
which would be
very different from the ones that they have been facing. Most companies have faced domestic competition and done well in the limited competitive milieu
that they have been operating in. But
now all companies will face competition from companies all over the world. Governments
will be
unwilling to protect domestic companies because they have realized that they will be doing a great disservice to their economies and people by limiting competition in their countries. Most governments are going overboard in making their countries attractive destinations for foreign capital, technologies, and companies. The game is clear. Only the best companies will survive. The nationalities of companies will not matter and country markets will become intensely competitive.

There will be another type of competition, which is more difficult to contend with because it comes from unexpected quarters. New technologies are pouring out of laboratories and development centers. These new technologies do not respect the boundaries of existing businesses. They solve customers' existing and even unarticulated needs in fresh ways. Customers lap up the products and services made with these technologies because they are decidedly better than the products and services they are using. Thus cellular telephone operators have decisive advantages over the landline phone operators, and the later would not find many new subscribers. Sending a document by e-mail has definite advantages over the sending the same document by courier and fax. Video-conferencing is a much less costly and cumbersome activity than getting the people engaged in the video-conferencing to travel from distance places and arranging for their meeting and stay. In that sense video- conferencing is a direct threat to air travel and hotel industries. Companies need to keep a track of development of technologies in varied areas, because there is no way to find out which one of them is going to hit them. Customers needs are changing because their economic status and their views about themselves and the world is changing. Customers are reinventing themselves more frequently these days, and hence their whole being and their rationale of existence is changing. This reflects in the products and services they buy and their motivations in buying those products and services also change. They want their needs to be served differently, and in most cases by different providers. A family used to go on a holiday once in a while for a change. It essentially used to be a meaningless outing. But now a families will go on a holiday with the avowed purpose of recuperating and energizing. Certain activities have to be part of this holiday. There has to be yoga sessions, mountain climbing, bonfires, etc.

The holiday planner that served the family will have to reinvent his business or there will be another provider waiting to grab his client.

A company

has to keep track of his customers changing attitudes, believes, needs, and see if he will be attracted to another provider.

2.8

COUNTRY ANALYSIS Country analysis helps to identify and assess the national environment. A nation's business environment crucial in determining the success of the business in a country. The an assessment of a country's business environment is called country analysis. The country analysis framework depends on three components – strategy, context and performance. The strategy consists of various goals of a country. Policies are the ways of achieving these goals. The context of the country includes components related to resources at a nation's disposal; the players and the rules of the game that define the functioning of the national system, and incentives to mobilize these resources. The strategy, with the constraints of the context, defines the performance of the country. Country analysis involves building a complete picture linking the strategy, context and performance. In order to accomplish country analysis, the nation is assumed to be a purposeful entity managed by its government that acts as a decision maker. This is a slightly simplistic assumption, as various non-government players are also involved in the decision making processes, and wide common interests exist only for a few decisions. 2.8.1 Identification of Strategy The first step in country analysis is the identification of the strategy of the company. A country's strategy is reflected in the goals and policies of decision makers. From various statements, actions and policies of government functionaries, analysis can be done regarding national goals, priorities of these goals, interrelationships among the goals, policies that would be used to accomplish these goals etc. It can also be assessed as to which resources of the nation would be affected by announcements of these goals, and who would be the players involved, i.e., the context. Goals National goals have political, social and economic dimensions. Political goals include re- election, power, stability, preservation of political system, or sovereignty. Social goals include improving education levels or standard of living, reducing income inequalities, or increasing housing availability. Economic goals include improved individual or national welfare, reducing unemployment, stable prices or increasing consumption. Check Your Progress 7.

Stability of government is an important factor in a company's decision to locate its businesses in a country or state.

Why? 8. What is the impact of a competitive environment on the marketing department of a business?

38 Self-Instructional Material Marketing Environment and Marketing System NOTES Policies Policies are government plans for implementing national goals. Several policies such as monetary policy, fiscal policy, sectoral policies, trade policies and exchange rate policies are usually evaluated by companies. Besides these policies, several other economic, political and social policies are announced by the government. The most important effect of policies is to influence the allocation, mobilization and efficiency of resource use. In effect, goals and policies affect the context of the national environment. Though countries are dominantly centralized or decentralized in their decision making, depending on how much authority for decision making lies with the government, most countries adopt a mix of both the above structures. Countries can either be inward looking, i.e., drafting policies that reduce the flow of capital, materials or labor into the countries, or they can be outward looking, i.e. allowing for a free flow of all or some factors of production. Again, depending on priorities, most governments adopt both inward and outward centered approaches, depending on the context. Policies are related to the context because the implementation of policies calls for changes in one or more features of the context. The context of a country at a point in time reflects the past and present focus of a country. 2.8.2 Context The context includes the resources available in a country, the players in the game, and the set of rules that define how the game is to be played. Resources The resources of a country include its human capital, physical capital, natural resources and technological skills. Resources not only include the amount of resources in the present period, but also the existing forces that will lead to future strengthening of these resources. The resource level indicates the feasibility of implementation of policies. Players The ability to implement policies also depends on the players in the game, who are crucial in transforming these resources to achieve goals. These players are the government, non-government agencies and companies. Government organizations are critical players in any country, usually coordinating and controlling various policies in the non-government organizations and companies. They are also large producers and consumers of the national output. Non-government organizations include religious groups, labor organizations, employer associations, activist groups, institutions and political parties. These organizations rarely directly allocate resources, though they play an important role in influencing the allocation. Each of these entities – government, non-government organizations and companies have varied interests, and hence seek different incentives. Rules of the game There are several written and unwritten rules in any country. While assessing a country, it is important to understand these rules, without which even survival becomes impossible. Many of these rules may not be written, and may be tacitly understood by all the entrenched players. Therefore, entrants must make efforts to understand these unwritten rules. Quality standards, bribery, nationalistic policies, gift exchanges, political overtures, favoritism etc. are rarely stated, but are assumed to be understood by others. Rules that are stated are aimed at establishing order and stability in interactions among the players in the game. Though these rules may not be efficient, and nor may they be followed stringently everywhere, they nevertheless set the limits of what can be accomplished.

Self-Instructional Material 39 Marketing Environment and Marketing System NOTES In most countries informal rules overrule formal rules. Even formal rules undergo changes with change in the players in the game. For instance, when the government changes, so do many rules. 2.8.3 Performance Performance of the policy must be evaluated on the basis of some standards. These standards can be past performance, stated goals, performance of other countries in similar contexts, or in similar stages of development. A deeper analysis requires that performance evaluation also be done in terms of overall national goals. For instance, introducing vocational programs to improve employability could be a policy initiative. However, the context of the country must allow for provision for greater employment levels, which would lead to a reduction in unemployment, the stated national goal. Therefore, the policy must answer questions such as: Are the available resources enough, or more needs to be generated? How does the policy affect resource mobilization, or its efficiency? The intentions of various policies are different. Some policies aim at dramatic improvements, while others seek to achieve only modest goals. When policy initiatives are meant to bring about drastic changes, the rules of the game need to be altered dramatically, and results are visible only over a long run. Therefore, while performing country analysis it needs to be ascertained if policy initiatives or changes would affect the resources, players in the game, or the rules of the game, and to what extent. It also needs to be analyzed that there are interdependencies among various players in the system. Pursuance or implementation of policies depend on existing policies and systems. The extent of support extended by the players in the system also depends on existing conditions. This in turn would govern the mobilization of resources to a large extent. Also, various players in the game do not share common interests. Thus, they may not display equal keenness in implementing the policies. Country analysis is essentially a diagnostic tool that enables one to assess the prevalent situation in a nation. This is particularly useful for multinationals who want to consider markets for entry and future operations. It is no les relevant for domestic players, as national goals and policies decide the environment that they are functioning in. Country analysis is not a one-time activity. Like all other environmental assessment tools, it has to be continuous to be of any use. 2.9 MARKETING SYSTEMS There was a time when most companies went to market only one way – through a direct sales force, for instance, or through distributors. But to defend their turf, expand market coverage, and control costs, companies today are increasingly adopting arsenals of new marketing weapons to use with different customer segments and under different circumstances. In recent years, as managers have sought to cut costs and increase market coverage, companies have added new channels to existing ones, they use direct sales as well as distributors, retail sales as well as direct mail, direct mail as well as direct sales. As they add channels and communications methods, companies create hybrid marketing systems. IBM computers were available from only one supplier, the company's sales force. But when the market for small, low-cost computers exploded, the management realized that the single distribution channel was no longer sufficient. In the late 1970s, it started expanding into new channels, among them dealers, value-added resellers, catalog operations, direct mail, and telemarketing.

40 Self-Instructional Material Marketing Environment and Marketing System NOTES Apple Computer also started out with a clear and simple channel strategy. It distributed its inexpensive personal computers through an independent dealer network. But when the company began to sell more sophisticated systems to large companies, it had to change. Apple hired national account managers as part of a new direct sales operation. In adding these new channels and communications methods, IBM and Apple created hybrid marketing systems. Powerful forces lie behind the appearance of such hybrid systems; all signs indicate that they will be the dominant design of marketing systems in the 1990s. At the same time, smart managers recognize the high risks of operating hybrid systems. Whether the migration is from direct to indirect channels (such as IBM) or from indirect to direct (like Apple), the result is the same — a hybrid that can be hard to manage. The appearance of new channels and methods inevitably raises problems of conflict and control – conflict because more marketing units complete for customers and revenues, and control because indirect channels are subject to less management authority than direct are. However, hybrid marketing systems have several benefits. A company that can capture the benefits of a hybrid system, such as increased coverage, lower costs, and customized approaches, enjoys significant competitive advantage over rivals that cling to traditional ways. Examples of hybrid marketing systems extend beyond high-tech businesses such as computers to older industries such as textiles, metal fabrication, and office supplies and to service industries such as insurance. Many of the examples in this article are high-tech companies because the accelerated pace of high-tech industries foreshadows trends that tend to occur more slowly in other industries. Companies are moving towards hybrid marketing systems due to two reasons – to increase market coverage and the need to contain costs. To sustain growth, a company generally must reach new customers or segments. Along the way, it usually supplements existing channels and methods with new ones designed to attract and develop new customers. This addition of new channels and methods creates a hybrid marketing system. The need to contain costs is another powerful force behind the spread of hybrid systems, as companies look for ways to reach customers that are more efficient. Despite the proliferation of marketing methods, few companies pay sufficient attention to the design of marketing systems or seek to manage them in ways that optimize coverage and costs. Most companies decide to add new channels and methods without a clear and realistic vision. These decisions are usually made separately and independently. As a consequence, companies can find themselves stumbling over their hastily constructed, overlapping hybrid system. At the heart of the problem of designing and managing hybrid systems is the fundamental question of what mix of channels or communication methods can best accomplish the assortment of tasks required to identify, sell, and manage customers. The trick to designing and managing hybrid systems is to disaggregate demand-generation tasks both within and across a marketing system – recognizing that channels are not the basic building blocks of a marketing system, marketing tasks are. This analysis of tasks and channels will identify the hybrid's basic components and permit managers to design and manage the system effectively. Conflict is an inevitable part of every hybrid system. When a company adds a channel or substitutes a new communication method within a channel, existing stakeholders – sales reps, distributors, telemarketers – invariably resist. Each faces a potential loss of revenue as well as competition for ownership of customers. In seeking to build and manage a hybrid system, therefore, companies must recognize and communicate the existence of conflict as the first and most important step. The next step is to assess the magnitude of the conflict, asking some simple but penetrating questions: How much revenue does the company have in conflict? (Revenue is in conflict

Self-Instructional Material 41 Marketing Environment and Marketing System NOTES whenever two or more channels simultaneously attempt to sell the same product to the same customer). Where is this conflict? How do channels and customers react to it? How much management time is devoted to dealing with the conflict? The answers to these questions will vary by industry and by company, but some generalizations are possible. A company with no revenue in conflict may be sacrificing coverage, failing to attract new customers by focusing too narrowly on a particular segment. A certain amount of conflict in a hybrid marketing system is not only inevitable but also healthy. After they determine the amount and location of conflict, managers can establish clear and communicable boundaries and specific end enforceable guidelines that spell out which customers to serve through which methods. Most companies observe some natural boundaries in the marketplace – areas defined by the interaction between buyer behaviour and channel costs. Typically, companies target the largest and most profitable customers for some form of direct personal selling and serve smaller, less profitable accounts through less expensive methods. The problems arise with those customers residing somewhere in the middle – midsize accounts or markets with fuzzy boundaries, such as large national accounts that use a combination of centralized and decentralized purchasing practices that vary by product, location, or order size. In this no-man's-land, neither the customer's buying behavior nor the company's transaction economics indicates definitively which method is the most effective way to serve the customer. Because no single method is clearly superior or appropriate, several may compete with each other. These customer segments should be identified and clearly communicated to all marketing units so they know they will have intra-company competition. Once the selling situations are identified, it is easier to construct barriers where natural segments exist. Boundaries between classes of customers are frequently inherent in terms of sales, but effective boundary design involves much more than spelling out who makes which sale. It should instead indicate who owns and who does not own certain customers. Boundary mechanisms that help achieve this goal are generally based on customer characteristics, geography, and products. Customer characteristics • Customer size is a familiar boundary criterion. • Order size provide another standard for drawing boundaries. • Customers can also be classified by decision-making process or decision-making unit. Finally, customers can be categorized by industry, particularly when there are genuine differences both in the product, price, and service package and in the expertise demanded of sales people. • Bounding by geography is clear and easy to enforce. • Product boundaries can also be used to classify customers. Once a hybrid system is up and running, its smooth functioning depends not only on management of conflict but also on coordination across the channels and across each selling task within the channels. A company with a successful hybrid marketing system will accomplish the following: z It will recognize that the design and management of its marketing system is a powerful weapon in an increasingly competitive and continually shifting battle for customers. z It will construct its marketing system using marketing tasks, not entire marketing channels, as the fundamental building blocks.
42 Self-Instructional Material Marketing Environment and Marketing System NOTES z It will anticipate, recognize, communicate, and contain conflicts inherent in the marketing system. z In designing boundaries between customer segments, it will strike a balance between too loose and too strict limits. z It will form policies and an organizational structure that allow new channels to grow, minimize internal conflict, and reinforce segment boundaries. z It will exploit information technology and other managerial tools of coordinate handoffs of customers and accounts from one channel or method to another and eventually develop customized marketing systems for each important customer or segment. 2.10 SUMMARY In this unit, you learnt that: •

98%	MATCHING BLOCK 52/151	W

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. • Income of

customers

91%	MATCHING BLOCK 53/151	W

indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money. •

A

rise in the number of dual income families in several parts of the world, including urban India has led to a rise in the incomes for such families. This

has resulted in a higher demand for lifestyle and luxury products. •

High inflation rate
decreases real wages, i.e., the customer can buy less goods with his income because the goods have become costlier. Inflation will reduce the demand for several products because the customer will ration his income on goods. •
A
marketing strategy to counter recession is that companies should improve existing products and introduce new ones. The idea is to reduce production hours, waste and the cost of materials so that companies can offer products at lower prices. • Recession increases the demand for products and services that offer good value at lower prices.
Thus,
sellers should be willing to extend credit to buyers to get over their reluctance to purchase. •

96%	MATCHING BLOCK 54/151	W

If interest rate of an economy is high, businesses will borrow capital at

a

100%	MATCHING BLOCK 55/151	W

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

higher than the interest rate they are paying on the capital. • Similarly, when the interest
rate is lower, companies can get cheap capital, and the
pressure to earn at a higher rate from their new businesses
is less. •
Exchange rate becomes a very important driver of performance when a company exports its products and when it imports materials and components for making its products. •
Exchange rate has become more important when supply chains of most companies are becoming global in scope i.e. companies are locating their manufacturing and distribution centres throughout the world, depending upon the advantages of each location. •

84%	MATCHING BLOCK 56/151	W

New technologies can be used very effectively to counter inflation and recession, and reduce production costs. •

89%	MATCHING BLOCK 57/151	W

Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed through out the world depending upon where these activities can be performed best.

Check Your Progress 9. What is the most important factor needed to accomplish country analysis? 10. List two reasons why companies are adopting hybrid marketing systems.
Self-Instructional Material 43 Marketing Environment and Marketing System NOTES • Customers live in societies, and

91%	MATCHING BLOCK 58/151	W

social factors include attitudes, values and lifestyles of people. These influence the products people buy; the prices they are willing to pay for the products; the effectiveness of specific promotions; and how, where and when people expect to purchase products. •

The growth in the number of working women means an increase in dual-income families
and significant change in their purchasing roles and patterns. For example,
products like cars, traditionally thought of as male products, are being bought by women, and companies are responding by designing cars specifically for them and employing more women. •

78%	MATCHING BLOCK 59/151	W

Demographics strongly affect buyer behaviour. Fast growth of population accompanied with rising income means expanding markets.

A

100%	MATCHING BLOCK 60/151	W

longer life span means a growing market for products and services targeted to the elderly. •

Stability of the

81%	MATCHING BLOCK 61/151	W

government is very important in a company's decision to locate its businesses in a country or a state. Businesses prefer

to

92%	MATCHING BLOCK 62/151	W

operate in countries where there is political stability and where rule of law prevails.

Businesses
need government regulations to protect the interests of society, innovators of new technology and consumers. • Country analysis helps to identify and assess the national environment. A nation's business environment is crucial in determining the success of the business in a country. The country analysis framework depends on three components: strategy, context and performance. • In order to defend their turf and control costs, businesses have expanded market coverage by adopting various marketing tools for different customer segments and different circumstances. These include not only direct sales and distributors but also direct mail, value-added reselling, catalog operations, telemarketing and channel marketing. 2.11 KEY TERMS • Competitive environment: It is the framework that consists of
the number of
competitors a company faces, the relative size of competitors and the degree of interdependence within the industry. • Country analysis: It is the process of assessment of a country's business environment. • Demography: It

96%	MATCHING BLOCK 63/151	W

is the study people in terms of their age, gender, race, ethnicity, and location •

Inflation: It is situation in which there is
an

76%	MATCHING BLOCK 64/151	W

increase in prices without a corresponding increase in wages, resulting in lower purchasing

power of consumers. •
Political-legal environment: It is

100%	MATCHING BLOCK 65/151	W

the legal framework within which the marketing department has to function. •

Recession: It is a

100% MATCHING BLOCK 66/151 W

period of economic activity when income, production and employment tend to fall. 2.12

ANSWERS TO 'CHECK YOUR PROGRESS' 1.
High inflation rate
decreases real wages, i.e., the customer can buy less goods with his income because the goods have become costlier.
This
will reduce the demand for several products because the customer will ration his income on goods.
44
Self-Instructional Material Marketing Environment and Marketing System NOTES 2. The two
marketing strategies to counter recession are as follows: • Companies should improve existing products and introduce new ones. •
Sellers should be willing to extend credit to buyers to get over their reluctance to purchase. 3.
Companies use new technologies to do business differently and more effectively. For example, Dell sells its product directly to business
customers through the Internet.
It
gets valuable information about its customers from the interactions it has with them. Dell uses
this
information to segment its market further and then focuses its attention on the most profitable customers. 4.
Dual-income families have greater household income but they have less time for family activities.
There is an increase in
demand for time-saving devices and products, particularly for the kitchen. The purchasing roles
and patterns have also changed. For instance, cars,
traditionally thought of as male products, are bought by women, and companies are responding by designing cars specifically for them and by employing more women. 5.

100% MATCHING BLOCK 67/151 W

Demography is the study of people in terms of their age, gender, race, ethnicity and location. 6.

People in the age group 35–45 years are settled in their professions and have toddlers or growing children at home. They exert themselves in their profession because they realize that their career is likely to take off at this stage. They put long hours at office and
they
juggle between their responsibilities as spouses and parents and employees. They may also have old parents to look after, either staying with them or in a different location. Income of people in this group rises at a good rate and they are good spenders. 7. Stability of
the

87% MATCHING BLOCK 68/151 W

government is a very important factor in a company's decision to locate its businesses in a country or a state. Businesses prefer

to

92% MATCHING BLOCK 69/151 W

operate in countries where there is political stability and where rule of law prevails.

They want to be sure that the judiciary is strong to force a party to a contract to abide by the tenets of the contract. 8.

The competitive environment consists of
the number of
competitors a company faces, the relative size of competitors and the degree of interdependence within the industry. The marketing department of a company has little control over the competitive environment confronting it. 9.
In order to accomplish country analysis, the nation is assumed to be a purposeful entity managed by its government that acts as a decision maker. 10. Companies are moving towards hybrid marketing systems due to the following two reasons: • Increase market coverage • Contain costs 2.13 QUESTIONS AND EXERCISES Short-Answer Questions 1. How does the exchange rate affect the marketing environment of a country? 2. List the advantages posed by a technologically advanced nation over a technologically bereft nation in marketing management. 3. How do cultural values affect the marketing environment of a country like India?
Self-Instructional Material 45 Marketing Environment and Marketing System NOTES 4. What is the buying behaviour of people between 45 and 60 years? 5. Describe the concept of hybrid marketing systems with the help of suitable examples. Long-Answer Questions 1. Evaluate the marketing opportunities and threats posed by the growing importance of the socially conscious consumer? 2. What are the major opportunities and threats to multinationals doing business in India? 3. Assess the impact of the emergence of the single European Union on Indian companies doing business in European markets? 4. Discuss the impact of the various factors in the Indian economic environment on businesses in the country? 5. Discuss the impact of FDI policies of the Indian government on various industries? 2.14 FURTHER READING

Gronroos, C., (1989), 'Defining Marketing: A Market-oriented Approach,' European Journal of Marketing, 23(1),52–60.
Levitt, T., (1969), The Marketing Mode, New York, NY: McGraw-Hill. Peters, T.
J. and R. H. Waterman Jr., (1982), In Search of Excellence: Lessons from America's Best Run Companies, New York, NY: Harper and Row.
Porter, M. E., (1980),
Competitive Strategy: Techniques for Analyzing Industries and Competitors, New York,
NY: Free Press.

Self-Instructional Material 47 Marketing Planning and Control NOTES UNIT 3 MARKETING PLANNING AND CONTROL Structure 3.0 Introduction 3.1 Unit Objectives 3.2 Marketing Planning 3.2.1 Process of Marketing Planning 3.2.2 Marketing Audit 3.2.3 SWOT Analysis 3.2.4 Key Questions and Process of Marketing Planning 3.2.5 Rewards of Marketing Planning 3.2.6 Problems in Making Planning Work 3.3 Marketing Process 3.3.1 Marketing Objectives 3.3.2 Core Strategy 3.3.3 Marketing Mix Decisions 3.4 Implementation and Control 3.4.1 Marketing Implementation 3.4.2 Marketing Control 3.5 Summary 3.6 Key Terms 3.7 Answers to 'Check Your Progress' 3.8 Questions and Exercises 3.9 Further Reading 3.0 INTRODUCTION Marketing planning and control are the core functions of marketing management. According to Hopkins (1983) and Kotler (1988), the marketing planning and control process is defined as 'the process of defining the action steps, priorities and schedules by which the marketing strategy will be implemented and making sure that the company is achieving the objectives that are stated in the marketing plan within the determined budget.' Based on this definition, we can say that research and analysis of the marketing and consumer environment, financial forecasting, objective setting (both long term and short term), strategizing and developing an action program are aspects of marketing planning. Marketing control involves determining the budget, monitoring implementation, reporting and deciding the best corrective action. According to Kotler (1988), to implement the marketing strategy, marketing management has to decide what level of marketing expenditures is necessary to achieve the marketing objectives. The total budget has to be allocated among the several marketing activities and tools in the marketing mix. According to Hopkins (1983), during the implementation of activities, the company has to review the process of marketing and sales activities regularly throughout the year. These reviews provide an opportunity to listen to weak signals and to redirect any parts of the planned action program that are off target. In this unit, you will learn about marketing planning and control in detail. 3.1 UNIT

71%	MATCHING BLOCK 70/151	W

OBJECTIVES After going through this unit, you will be able to: • Understand the concept of marketing

planning, with emphasis on marketing planning, marketing audit and SWOT analysis

48 Self-Instructional Material Marketing Planning and Control NOTES • Assess the marketing process, in relation to marketing objectives, core strategies and marketing mix decisions • Know that businesses must design an organization that has the capability to implement and control marketing plans 3.2 MARKETING PLANNING The role of the marketing plan is to ensure that the marketing mix for the product matches changing customer needs, as well as to seek opportunities to use the company's strengths to market other products in new markets. Many companies market a range of products in many markets. Allocation of resources needs to be done for each product. Resource allocation should be dependent on attractiveness for each product and marketing is involved in this decision. The starting point is asking the basic question 'where is the company now'. This involves a factual statement and a value judgment as to the degree of success achieved against expectation. The answer will depend upon 'facts' as perceived by the executives of the company. The second question 'how did the company get here', focuses on an analysis of significant events that had a bearing on the achievement of the company and its shortcomings. The next question, 'where is the company heading', focuses on the future, given that the company makes no significant changes in its actions. If the company proceeds as it had done in the past, what are the likely outcomes? But the next question, 'where would the company like to be', allows the company to compare its prediction of its future with its aspirations. It is a key planning question. If its aspirations match its predictions based on current behavior, it can proceed as before. But its assessment may be that current actions are insufficient to achieve where it would like to be. So it needs to ask, 'how does the company get there?' The company identifies options that make sense in the light of its aspirations. Answering the question, 'How does the company get there' provides the company with its strategy. Finally after putting into practice its new actions it periodically checks out its position by asking, 'Is the company on course?'. If it is, then the plan remains unchanged, if not, the company modifies its plans. 3.2.1 Process of Marketing Planning Business mission It is a broadly defined, enduring statement of purpose that distinguishes a business from others of its type. Business mission is enduring and specific to individual organizations. The mission statement answers two questions: What business the company is in? What business does the company want to be in? The answers define the scope and activities of the company. Mission explains the reasons for the company's existence. It may include a statement of the market, needs, and technology. The market reflects the customer groups being served. Needs refer to the customer need being satisfied, and technology describes the process by which the customer need is being satisfied. The inclusion of market and needs ensure that the business definition is market focused rather than product focused. Thus the purpose of a company should not be to manufacture computers but to solve customer's information and productivity problems. The reason for ensuring that business definition is market focused is that products are transient but basic needs such as transportation, entertainment and food are lasting. A business should be seen as customer-satisfying process and not a goods producing process. By adopting a customer perspective new opportunities are more likely to be seen.

Self-Instructional Material 49 Marketing Planning and Control NOTES But a key constraint on business definition can be competence and resources of a company. Could railroad companies have moved into the airline business even if it could see that that airlines will be the major method of transport for the future? A second influence on business mission is environmental change. Change provides opportunities and threats which influence mission definition. The final determinants of business mission are the background of the company and personalities of the senior management. Businesses that have established themselves in the marketplace over many years and have a clear position in the minds of customers may ignore opportunities that are at variance with that position even if the new market displays high growth rates. The personalities and beliefs of people who run the business also shape business mission. This emphasizes the judgmental nature of business definition. There is no right or wrong business in abstract. The mission should be based on the vision that top management and their subordinates have of the future of the business. This vision is a coherent and powerful statement of what the business should aim to become. Business mission is a means of giving direction to an organization in the sense of deciding what activities to focus on and where boundaries of these activities lie. Purpose The mission explains why the business exists and for whose benefit is the effort exerted. One approach is to list the stakeholders associated with the company. A stakeholder definition of purpose is based on the assumption that company exists to serve the stakeholders i.e. employees, customers, suppliers, shareholders, and the business mission should state what each will get out of the relationship. But companies with a sense of mission strive for a higher deal. They define purpose as some objective that is more important than any of the stakeholder's individual interests. The effect is to draw together stakeholders, particularly employees by showing that they can commit themselves to the business not only because of financial benefits but also because purpose of business is worthwhile. Strategy Strategy is the commercial logic of the business. It defines how the business is different from other competitors. Strategy involves making a conscious choice about a different set of activities that are slated to create a unique value proposition. The set of activities that have been chosen by a company must either be performed differently from competitors, or a different set of activities from those of competitors must be selected. Strategy defines the boundary of the business and identifies the competitive advantages and distinctive competencies that will enable the business to compete effectively in its chosen business domain. Without the definition of activities that the company will pursue, strategy only remains a rhetoric. Standards and behaviors These are instructions about how employees should behave. Company values A key determinant of behavioral standards are the values that form the foundation of the firm's management style. Values are justifications of behavior. Values form the bedrock upon which the purpose, strategy, and behavior is formed. By specifically naming a major competitor, a business mission is personalized and sets a target that drives personal effort and commitment. The business mission provides a sense of meaning to employees that inspires high level of commitment and loyalty and gives a common sense of direction. It communicates senior management's beliefs about the company's distinctive competencies to employees and indicates standards of behaviors
50 Self-Instructional Material Marketing Planning and Control NOTES expected from them. Mission statements also have an external role to play. Although subsidiary to their internal use, they have the effect of informing, guiding and gaining commitment from suppliers and communicating reputation, quality and service levels to organizational customers. 3.2.2 Marketing Audit Marketing audit is a systematic examination of a business's marketing environment, objectives, strategies and activities with a view to identifying key strategic issues, problems areas and opportunities.

Marketing audit is the basis upon which a plan of action to improve marketing performance can be built. The marketing audit provides answers to questions: z Where is the company now? z How did the company get here? z Where is the company heading? Answers to these questions depend upon analysis of internal and external environment of a business. The results of marketing audit are a key determinant of future direction of the business and may give rise to a redefined business mission. External analysis covers the macroenvironment (economy, social/cultural issues, technological changes, political/legal factors, ecological concerns), the market and competition. The market consists of statistical analysis of the market size, growth areas, and trends. Customer analysis includes who the customers are, what choice criteria they use, and how they rate competitive offerings and market segmentation bases. Distribution analysis covers significant movements in power bases between the manufacturer and the intermediaries, channel attractiveness studies, and identification of physical distribution methods. Competitor analysis examines the nature of actual and potential competitors and their objectives and strategies. It would also seek to identify their strengths, distinctive competencies, weaknesses, market share and size. Profitability analysis examines industry profitability and comparative performance of competitors. Entry barrier analysis identifies the key financial and non-financial barriers that protect the industry from competitor attack. In the internal audit the operating results of the company form the basis of assessment through analysis of sales, market share, profit margins and costs. Strategic issues analysis examines the suitability of marketing objectives and segmentation bases in the light of changes in the marketplace. Competitive advantages and core competencies would be reassessed and positioning of products in the markets critically reviewed. Product portfolio should be analyzed to determine future strategic objectives. Each element of the marketing mix is reviewed in the light of changing customer requirements and competitor activity. Marketing systems are audited for effectiveness. The marketing audit should be an ongoing activity, not a desperate attempt to turn around an ailing business. 3.2.3 SWOT Analysis SWOT analysis is a structured approach to evaluating the strategic position of a business by identifying its strengths, weaknesses, opportunities and threats. Internal strengths and weaknesses are assessed as they relate to external opportunities and threats. Not only absolute but relative strengths and weaknesses should also be identified. Relative strengths focus on strengths and weaknesses as compared to competition. Thus if everyone produces quality products, this is not identified as relative strength. Two lists should be drawn up based on absolute strengths and weaknesses. Strengths that can be exploited can be both absolute and relative, but how they are exploited and the degree to which they can be used depends on whether the competition also possess them and to what extent. Relative

Self-Instructional Material 51 Marketing Planning and Control NOTES strengths provide distinctive competencies of a business. An absolute weakness which competitors also possess should be identified because it can clearly become a source of relative strength if overcome. If all businesses in an industry are poor at after-sales service, this should be noted as weakness as it provides the potential for gaining competitive advantage. Relative weaknesses should also be listed because these may be the sources of competitive disadvantage to which attention should be focused. In evaluating strengths and weaknesses only those resources or capabilities which would be valued by the customer should be included. Thus strengths such as 'we are an old established firm' should be questioned for their impact on customer satisfaction. It is possible that such bland generalizations confer as many weaknesses as strengths. Opportunities and threats should be listed as anticipated events or trends outside the business that have implications for its performance. They should not be couched in terms of strategies. For instance, to enter a market segment is not an opportunity but a strategic objective that may result from a perceived opportunity arising from emergence of the new market segment as an attractive target market because of its growth potential and lack of competition. Families are increasingly becoming nuclear and more women are working outsides their homes than ever before. This social evolution can be an opportunity for packaged food companies. Governments and pressure groups are becoming very concerned about damage to the environment. Companies in chemical and refining industries can find this attitude of governments and pressure groups as threatening. An event can be defined as an opportunity or threat depending upon the strengths and weaknesses of the company. The same event can be considered as threat by one company and opportunity by another company. While increasing environmental concerns among governments and pressure groups will be considered as threat by chemical and refining industries, it will be opportunity for companies which will make equipments that will be less polluting. 3.2.4 Key Questions and Process of Marketing Planning z Where are we now and how did we get there – Business mission, marketing audit, SWOT analysis z Where are we heading – Marketing audit and SWOT analysis z Where would we like to be – Strategic option analysis, marketing objectives z How do we get there – Core strategy, marketing mix decisions, organization, implementation z Are we on course – Control 3.2.5 Rewards of Marketing Planning z Consistency: By reference to a common marketing plan, decisions by the same manager over time, and by different managers should be more consistent and actions better coordinated. z Encourages monitoring of change: Step away from day to day problems and review the impact of change on business from a strategic perspective. z Encourage organizations adaptation: Firm adapts to match its environment. Marketing planning promotes the necessity to accept the inevitability of change. z Stimulates achievement: It motivates people to set new objectives. It encourages people to ask, "What can we achieve, given our capabilities?" z Resource allocation: Build, harvest and divest objectives decides resource allocation. z Competitive advantage: Planning promotes search for sources of competitive advantage.

52 Self-Instructional Material Marketing Planning and Control NOTES But not all companies formulate and implement their plans in this manner. Planning may be at variance with the culture of the business but which may plan equally effectively using an incremental approach. The style of planning must match business culture. Incremental planning is more problem focused as the process begins by realization of a problem and continues with an attempt to identify a solution. As solutions to problems form, so strategy emerges. Individual decisions should be integrated to align with the strategy, which is not being done. Strategy is a loosely linked group of decisions that are handled individually. Its effect is to attune the business to its environment through its problem solving nature. 3.2.6 Problems in Making Planning Work z Political: Marketing planning is a resource allocation process. The outcome of this process is an allocation of more funds to some products and departments, the same or less to others. Since power bases, career opportunities and salaries are often tied to whether an area is fast or slow growing, managers view planning as a political process. z Opportunity cost: Busy managers view planning as a time wasting ritual which conflicts with the need to deal with day to day business and problems. z Reward systems: Reward systems are geared to short term. Managers may thus overweigh short term issues and underweigh medium term and long term concerns, if there is a conflict of time. z Information: There may be lack of data of market share, size and growth rates of markets or they may be willfully withheld by vested interests. z Culture: Business may be planned by making incremental decisions. Planning may challenge the status quo and be seen as a threat. z Personal clashes z Lack of knowledge and skills How to handle marketing planning problems z Top management must be committed to planning and be seen by middle management to give it total support. Top management should be seen insisting on implementation of what has been planned. When a marketing plan is discarded without giving convincing reasons, employees become skeptical towards the whole planning process. Planning should be given ongoing support, and not be treated as a short term fad. z How the marketing planning process is managed should be consistent with the culture of the organization. z The reward system should reward the achievement of longer term objectives rather than focus exclusively on short term results. z Depolitisizing outcomes: Less emphasis should be placed on rewarding managers associated with build (growth) strategies. Recognition of the skills involved in defending market share and harvesting products should be made. The company should recognize that it takes more skills and perseverance to defend a market share in a highly competitive, mature market than to grow a business in a new product category. z Plans should be clearly communicated to those charged with implementation. It is useful when people who are ultimately responsible for implementing the plan are also involved in its formulation. Employees are more eager to implement a plan that they themselves formulated. z Training: Marketing personnel should be trained in necessary marketing knowledge and skills to perform the planning job. Ideally the management should attend the same training course so that they each share a common understanding of concepts and tools involved and can communicate using the same terminology. Check Your Progress 1. What is the role of marketing plan? 2. List three ways by which marketing planning problems can be handled.

Self-Instructional Material 53 Marketing Planning and Control NOTES 3.3 MARKETING PROCESS 3.3.1 Marketing Objectives Objectives should be set in terms of which products to sell in which markets. Strategic objectives for each product need to be agreed. This begins the process of planning at the product level. There are four alternatives: Build, Hold, Harvest and Divest. For new products, the strategic objectives will be to build sales and market share. For existing products appropriate strategic objective will depend upon the particular competitive situation of the product (BCG matrix). Strategic options for increasing sales volume A company can increase its sales volume by targeting the existing customers (increasing consumption per occasion, or increasing the frequency of consumption, or offering them new products), or by entering new market segments, or by winning competitors' customers. z Market penetration A company wins competitor's customers by making more effective use of promotion or distribution, or by cutting prices in existing markets with current products. Winning competitors' customers achieves an immediate increase in market share. To protect the penetration already gained in a market, a business may consider methods of discouraging competitive entry. Barriers can be created by cost advantages (lower labor costs, access to raw materials, economies of scale), highly differentiated products, high switching costs, and displaying aggressive tendencies to retaliate. z Market expansion A company may attempt to expand a market that they already serve by converting non- users to users of their product. This can be an attractive option in new markets when non-users form a sizeable segment and may be willing to try the product given suitable inducements. Lapsed users i.e. customers who have used the product but have stopped doing so, can also be targeted. Market expansion can also be achieved by increasing usage rate. z Product development A company develops new products for existing markets. One variant is to extend existing product lines to give current customers greater choice. When new features are added with an accompanying price rise, trading up may occur with customers buying the enhanced value product upon repurchase. Product replacement activities involve the replacement of old models/brands with new ones. A final option is replacement of an old product with a fundamentally different one, often based on technology change. The old product is replaced with an innovation. z Market development Promotion of new uses of an existing product to existing customers or marketing of existing products to new market segments (overseas). z Entry into new markets Development of new products for new markets. This is risky if it is not based on the core competencies of the business. Strategic options for improving profitability A company can increase its profits by decreasing costs or increasing prices. It can also choose to cut down the scale of its operations.

54 Self-Instructional Material Marketing Planning and Control NOTES z Reduce costs Fixed costs cannot be varied in the short term. Fixed cost reduction can be accomplished by closing less efficient plants thereby reducing capacity. Fixed cost per unit are reduced, therefore profitability is increased. One positive way of reducing fixed cost is by increasing capacity utilization and consequently reducing fixed cost per unit of output. Closing inefficient plant also reduces variable costs. Another method of reducing both fixed and variable costs is by sub-contracting. Profitability can also be improved by reducing investment in such areas as stocks, Work in Progress and account receivables. This reduces working capital of business. Standardization of components has a beneficial effect on variable costs because component makers can gain from longer production runs. z Rationalize operations Three alternatives may be considered for rationalizing operations – market segment rationalization, product line pruning, and distribution rationalization. Market segmentation rationalization involves dropping of market segments to be served by the company, or serving them in a cheaper way (shifting from personal selling to telesales). Product line pruning reduces costs by eliminating costly product variants or brands. A business may decide to cut back on the distribution channel width in order to make economies. A decision could be made to supply to only those outlets which order over a certain threshold level, thus reducing ordering and transportation costs. z Increasing prices Profitability can also be improved by increasing the price of the product. The increase in price however needs to be justified. A company may decide to add some product features, provide additional or better services, customize products, or improve quality in order to justify the price increase. With this enhanced value provision, the company may decide to target either the existing segment or a new segment of customers who may require such a modified product. However, these modifications require additional investment depending on the extent of modifications. Here, the additional value comes at a higher price for the customer. This option makes perfect sense when the additional value provided by the company cannot be copied by competitors. 3.3.2 Core Strategy The core strategy focuses on how business objectives can be accomplished. It consists of three elements: Target markets Target markets are groups of customers that are attractive to the business and match its supply capabilities. Information regarding size, growth, potential, level of competitor activity, customer requirements and key factors for success are needed to assess the attractiveness of each segment. This should be considered in light of the capabilities of the business to compete effectively in each specific target market. If the needs of target customers have changed, the marketing mix should be adapted to match the new requirements. In other cases, target markets may have fallen in attractiveness and products will have to be repositioned and targeted at different market segments. Competitor targets Weak competitors may be viewed as easy prey and resources are organized to attack them. The company has to establish a policy to determine the competitors that it will take on and how.

Self-Instructional Material 55 Marketing Planning and Control NOTES Competitive advantage The link between target markets and competitor target is the establishment of a competitive advantage. Businesses need to achieve a clear performance differential over competitors on factors that are important to target customers. The most successful methods are built upon some combination of three advantages: z Being better: Superior quality or service z Being faster: Anticipate and respond to customer needs faster than competition z Being closer: Establishing close long term relationship with customers Another route is to achieve lowest cost position of all competitors. Lowest cost can be translated into competitive advantage through low prices. To some extent achieving a highly differentiated product is not incompatible with low cost position. High quality products suffer low rejection rates, lower repair costs and therefore incur lower costs than their inferior rivals. But beyond the point when a company has achieved efficiency in its operation and achieved high quality at the old cost levels, increasing quality further will entail new costs. Therefore an inefficient company will be able to differentiate its offerings and reduce costs simultaneously. But once companies in an industry have become efficient, differentiation and low cost positions become incompatible, i.e., a company which chooses to differentiate its offerings will incur higher costs. Tests of an effective core strategy First the strategy must be based upon a clear definition of target customers and their needs. Second, an understanding of competitors is required so that the core strategy can be based upon competitive advantage, i.e., what the company can do better than or different from competitors. Third, the strategy must incur acceptable risk. Challenging a strong competitor with a clear competitive advantage, and a low resource base of the company would not incur acceptable risk. It will too much of a risk attacking an entrenched competitor without having deep pockets. Fourth, the strategy should be resource and managerially supportable. Fifth, core strategy should be derived from product and marketing objectives (heavy promotion makes no sense when the objective is to harvest). Finally, the strategy should be internally consistent. The elements should blend to form a coherent whole. 3.3.3 Marketing Mix Decisions Where promotional, distribution and product standards surpass those of competition, a clear competitive advantage is gained. But when such clear competitive advantage cannot be established, one element of the marketing mix may be worked upon to get advantage over competitors. To outgun the competition on everything is normally not feasible. Choices have to be made about how marketing mix can be blended to provide a superior offering to the customer at a reasonable cost. Marketing mix elements must change when the company moves from one target segment to another. 3.4 IMPLEMENTATION AND CONTROL Business must design an organization that has the capability of implementing the marketing plan, which may be to increase revenues and profits, or to maintain market share, or to increase profits at the cost of market share and future viability of the business or to move out of the business. 3.4.1

94%	MATCHING BLOCK 71/151	W

Marketing Implementation There is need to develop strategies that are more than customer based. The strategy should also focus on attacking and defending against competitors.

Check Your Progress 3. What do you understand by a business mission? 4. What are the two basic questions that are answered by a well-considered mission statement? 5. What are the various strategic options that can be used to improve profitability? 6. What does core strategy focus on? List its three elements.

56 Self-Instructional Material Marketing Planning and Control NOTES Build objective z

100%	MATCHING BLOCK 72/151	W

Attractive conditions A build objective is suitable in growth markets. Because overall market sales

are

98%	MATCHING BLOCK 73/151	W

growing, all players can achieve higher sales. But a in mature market (no growth), increase in sales of one player has to be at the expense of competition (zero sum game). In growth markets, market growth will help fill capacity without recourse to aggressive retaliatory action whereas in mature markets capacity utilization will improve only at the expense of competition. A build objective makes sense in growth markets because new users are being attracted to the product. Since these new users do not have an established brand or supplier loyalty, it is logical to invest resources into attracting them to the company's product offering. Provided the product meets their expectations, trial during growth phase can lead to the building of goodwill and loyalty as market matures. The build objective is also attractive in mature (no growth) markets where there are exploitable competitive weaknesses. A competitor may not be providing adequate service. Exploitable competitive weakness allow the creation of a differential advantage. A build objective is also attractive when the company has exploitable corporate strengths. When taking on a market leader, a necessary condition is adequate corporate resources, because the leader will retaliate forcefully. Finally, the build objective is attractive when experiences curve effects are believed to be strong. By building sales faster than competition, a company can achieve position of cost leader.

z

98%	MATCHING BLOCK 74/151	W

Strategic focus A build objective can be achieved by market expansion, winning market share from competition, by mergers or acquisitions, and by forming strategic alliances. „ Market expansion This is brought about by creating new users, or new uses, or by increasing frequency of purchase. New users may be found by expanding internationally or by moving to a larger target market. New uses can be promoted. Increasing the frequency of use may rely upon persuasive communication. For example, a shampoo manufacturer can persuade consumers to use more per occasion or encourage more frequent usage of the product. „ Winning market share This indicates gaining market share at the expense of competition. Principles of offensive warfare apply in this case. These are to consider the strengths of the leader's position, to find a weakness in the leader's strength and attack at that point. (i) Frontal attack This involves the challenger taking on the defender head on. The challenger attacks the main market of the market leader by launching a product with a similar or superior marketing mix. The market leader gets most of its revenues and profits from this market segment. If the defender is a market leader, the success of challenger depends on a clear and sustainable competitive advantage. If the advantage is based on cost leadership, this will support a low price strategy to fight the market leader. A distinct differential advantage possessed by the challenger provides basis for superior customer value by which customers can be enticed. Second, the challenger should match the leader in other activities. Third, success is more likely if there is some

Self-Instructional Material 57 Marketing Planning and Control NOTES

99%	MATCHING BLOCK 75/151	W

restriction on the leader's ability to retaliate. Restrictions include patent protection, pride, technological lead times and costs of retaliation. Where a differential advantage or cost leadership is supported by patent protection, imitation by market leader will be difficult. Pride may hamper retaliation. The market leader refuses to imitate because to do so would admit that the challenger has outsmarted the leader. Where the challenge is based upon a technological innovation, it may take time to put in place the new technology. Retaliation may also be difficult because of the prohibitive costs involved. The risks of damaging brand image and lowering profit margins may also deter the market leader from responding to price challenges. Finally, the challenger needs adequate resources to withstand the battle that will take place should the leader retaliate. Sustainability is necessary to stretch the leader's capability to respond. The challenger should understand that the entrenched player will fight hard and long. The challenger should have the will and resources to engage the market leader in long battle for market supremacy. (ii) Flanking attack Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. The Japanese attacked the small car segment, from which they expanded into other segments. Mars attacked Unilever's Wall's ice cream by launching a range of premium brands. Unilever's response was to launch a range of premium brands themselves and to defend their shop vigorously. Unilever entered into exclusivity deals with retailers which prevented competitors from selling their products in shops which sold Wall's ice creams, and freezer exclusivity prevented competition from placing their ice cream in Unilever supplied freezer cabinets. The advantage of a flanking attack is that it does not provoke the same kind of response as a head on confrontation. Since defender is not challenged in its main market segment, there is chance that it will ignore the challenger's initial success. If the defender dallies too long, the flank segment can be used as a beach head from which to attack the defender in its major markets. (iii) Encirclement attack Encirclement attack involves attacking the defender from all sides. Every market segment is hit with every combination of product features and prices to completely encircle the defender. An example is Seiko which produces over 2000 designs of watches for market worldwide. They cover everything the customer might want in terms

of fashion and features. A variant of this

94%	MATCHING BLOCK 76/151	W

approach is to cut off supplies to the defender, by acquiring major supply companies. (iv) Bypass attack This attack involves circumventing the defender's position. The attacker changes the rules of the game, usually through technological leap-frogging. The company can revert to making a simpler product with very low prices or it can incorporate a new technology in its product which enhances the value of the product by a big margin. A bypass attack can also be accomplished through diversification. The attacker can bypass a defender by seeking growth in new markets with new products. (v) Guerilla attack The attacker hurts the defender by pin-pricks rather than blows. Underdogs can make life uncomfortable for its stronger rivals. Unpredictable price discounts, sales promotions, or heavy advertising in a few segments and regions are some tactics that attackers can use. 58

Self-Instructional Material Marketing Planning and Control NOTES

98%	MATCHING BLOCK 77/151	W

Guerilla tactics may be the only feasible option for a small company facing a larger competitor. Such tactics allow the small company to make its presence felt without dangers of a full frontal attack. By being unpredictable, the guerilla attack is difficult to defend against. But such tactics run the risk of incurring the wrath of the defender who may choose to retaliate with full frontal attack if sufficiently provoked. z Mergers or acquisitions Build objectives can be achieved by merging with, or acquiring competitors. By joining forces, costly marketing battles can be avoided and synergies may be gained in various departments such as purchasing, production, financial, marketing and R&D. A merger can facilitate scale of operations that may be required by the firm to operate as an international force in the market. Mergers and acquisitions give an immediate sales boost and when the players operate in the same market, an increase in market share. Mergers are risky especially when they involve parties from different countries. Differences in culture, language, business practices and problems associated with restructuring may cause terminal strains. z Forming strategic alliance A company can build through strategic alliances. The aim is to create a long term competitive advantage for the partners, often on a global scale. The partners can collaborate by means of a joint venture (a jointly owned company), licensing agreements, long term purchasing and supply arrangements, or joint R&D programs. Strategic alliances maintain a degree of flexibility not apparent with merger or acquisition. By strategic alliances, partners can share the product development costs and risks. Through strategic alliances access to new markets and distribution channels can be achieved, time to market reduced, product gaps filled and product lines widened. A strategic alliance can be the initial stage to a merger or acquisition, allowing each party to assess their abilities to work together effectively. There should be desire and ability to learn from alliance partners. The risk in any form of strategic alliance is that the alliance can leak technological and core capabilities to the partner, thereby giving away important competitive information. Thus one way transfer of skills should be avoided by building barriers to capability seepage. Core competencies should be protected at all costs. This is easier when a company has few alliances, or when only a limited part of organization is involved in the alliance, or when relationships built up in the alliance are stable. Hold objective Hold objectives involve defending a company's current position against imminent competition. The principles of defensive warfare are relevant i.e. strong competitive moves should always be blocked.

z

97%	MATCHING BLOCK 78/151	W

Attractive conditions The classic situation where a hold objective makes strategic sense is for a market leader in a mature or declining market. This is the standard cash cow position. By holding on to market leadership, a product should generate positive cash flows which can be used elsewhere in the company to build other products. Holding on to market leadership makes sense because brand leaders enjoy the marketing benefits of bargaining power with distribution channel members and brand image, as well as enjoying experience curve effects that reduce costs. In a declining market, maintaining market leadership may result in the company becoming a virtual monopolist as weaker competitors withdraw. A second situation where the costs of attempting to build sales and market share outweigh the benefits are when there are aggressive rivals who would respond strongly if attacked.

Self-Instructional Material 59 Marketing Planning and Control NOTES

93%	MATCHING BLOCK 79/151	W

It may then be prudent to be content with the status quo and avoid actions that are likely to provoke competition. z Strategic focus A hold objective may be achieved by monitoring competition or by confronting the competition. „ Monitoring the competition When there is competitive stability, everyone is playing the good competitor's game, content with what they have and no one is willing to destabilize the industry structure. Monitoring is necessary to check that there are no significant changes in competitor behavior but beyond that no change in strategy is required. „ Confronting the competition Rivalry is more pronounced among existing players since the product is in the maturity or the decline stage. Strategic action may be required to defend sales and market share from aggressive challenges. (i) Position defense Position defense involves building fortification around one's existing territory, which translates into building fortification around existing products. The company has a good product which is priced competitively and promoted effectively. This will work if products have differential advantage that are not easily copied, for instance, through patent protection. Brand and reputation may provide strong defense. But this strategy can be dangerous. The customers' needs or the underlying technologies of the product may have changed but the company may refuse to change track fearing that it will damage its current positioning and reputation. (ii) Flanking defense Flanking defense is defending a hitherto unprotected market segment, because it will provide a beach head for new entrants to gain experience in the market and attack the main market later. It makes sense for a defender to compete by launching a suitable offering in a segment that is unattractive in the short run, if it helps to avoid or slow down competitive inroads. But if this effort is half hearted, it will not help. Failure to defend an emerging market segment may be dangerous later as competitors will entrench themselves in the unprotected segment. (iii) Preemptive

defense

90%	MATCHING BLOCK 80/151	W

Attack first: This involves continuous innovation and new product development. The defender proactively defends its

turf by

95%	MATCHING BLOCK 81/151	W

adopting such measures. This may dissuade a would-be attacker. Counter offensive defense: In head on counterattacks, a defender matches or exceeds what the attacker has done. This may involve heavy price cutting or promotion expenditure. This may be costly but may be justified to deter a persistent attacker. A counterattack may be based on innovation. Hitting the attacker's cash cow strikes at the attacker's resource supply line. Encircle the attacker: The defender launches brands to compete directly against attacker's brands. Mobile defense: When a company's major market is under threat, a mobile defense makes strategic sense. The two options in a mobile defense are diversification and market broadening. Diversification involves attempts to serve a different market with a different product. The company will have to check if it has the competencies to serve the new market effectively. Market broadening involves broadening the business 60

Self-Instructional Material Marketing Planning and Control NOTES

96%	MATCHING BLOCK 82/151	W

definition. In the face of declining cinema audiences, film companies redefined their business as entertainment providers rather than film makers and moved into TV, magazines, gambling, theme parks etc. Strategic withdrawal: The defender defines its strengths and weaknesses, and then hold on to its strengths while divesting its weak businesses. The company therefore concentrates on its core business. A strategic withdrawal allows a company to focus on its core competencies. This is often required when diversification has resulted in too wide a spread of activities away from what it does well. Niche objective The company may pursue a small market or even a segment within a segment. Such a strategy may avoid competition with companies which are serving the major market segments. But

if the

100%	MATCHING BLOCK 83/151	W

niche is successful, large competitors are attracted into the segment

z

97%	MATCHING BLOCK 84/151	W

Attractive conditions Niching may be the only feasible objective for companies with small budgets and where strong competitors are dominating the main segment. But there should be pockets within the market that provide the opportunity for profitable operations, and in which competitive advantage can be created. These conditions apply when major players are underserving a particular group of customers as they attempt to meet the needs of majority of customers, and where market niche is too small to be of interest to them. z Strategic focus A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of company to serve it. Focused R&D expenditure gives a small company a chance to make effective use of limited resources. The emphasis should be on creating and sustaining a differential advantage through intimately understanding the needs of the customer group and focusing attention on satisfying those needs better than competition. Niche operators should be wary of pursuing growth strategies by broadening their customer base. This will lead to the blurring of differential advantage upon which their success has been built. Niche companies trade on exclusivity, and to broaden their market base would run the risk of diluting their differential advantage. Nichers consciously think small, eschewing unsustainable growth in favor of profitability. The emphasis is on high margins not high volume.

Harvest objective

100%	MATCHING BLOCK 85/151	W

Harvest strategy attempts to improve unit profit margins even if the result is falling sales. Although sales are falling, the aim is to make the company or product extremely profitable in the short term generating large positive cash flows that can be used elsewhere in business.

z Attractive conditions Also-ran products or companies
in

100%	MATCHING BLOCK 86/151	W

mature or declining markets are the prime targets for harvest strategies, since they lose money or earn very little and take up valuable management time and resources. Harvesting can move them to a profitable stance, and reduce management attention to minimum. In growth markets harvesting makes sense where the costs of building or holding exceeds the benefits. The problem children or products that have little long term potential can be harvested. Harvesting is attractive if a core of loyal customers exist, which means that sales decline to a stable level. A final attractive condition is where future breadwinners exist in the company and they need resources which will come from harvesting products or businesses within the company. But harvesting a one product company is likely to lead to its demise.

Self-Instructional Material 61 Marketing Planning and Control NOTES z

100%	MATCHING BLOCK 87/151	W

Strategic focus Harvesting involves eliminating R&D and marketing expenditure. Only the very essential expenditures are incurred. The only product change that will be contemplated is reformulation that reduces raw materials and manufacturing costs. Rationalization of product line to one or a few top sellers cuts costs by eliminating expensive product variants. Marketing support is reduced by slashing advertising and promotional budgets while every opportunity is taken to increase price. Continued harvesting will make the business very weak and eventually unviable. The company has to make a decision as to when it should stop harvesting and sell the business.

100%	MATCHING BLOCK 88/151	W

It is never a good idea to persist harvesting for such a long time that no buyer finds anything worthwhile left in the business. Divest objectives A company may decide to divest itself from a SBU or a product. It stems the flow of cash to poorly performing area of its business.

z

96%	MATCHING BLOCK 89/151	W

Attractive conditions Divestment is associated with loss making products or businesses that are a drain on both financial and managerial resources, or it is judged that costs of turnaround exceed benefits. Also-rans in the growth phase may be divested, sometimes after harvesting has run its full course. But care must be taken to examine interrelationships within corporate portfolios. For instance, if a product is making a loss, it would still be worthwhile supporting, if its removal would adversely affect sales of other products in the company as the less profitable product complements the more profitable product. In some industrial markets, customers expect a supplier to provide a full range of products. Therefore, even though some products may not be profitable, sales

of the

100%	MATCHING BLOCK 90/151	W

whole range may be affected if the loss making products are dropped.

z

100%	MATCHING BLOCK 91/151	W

Strategic focus Because of a drain on profits and cash flows, focus should be to get out quickly so as to minimize costs. If a buyer can be found then some return may be realized. If not, the product will be withdrawn. A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price. A company

should act fast once it decides that it has to get rid of a business and sell it when it is still in a viable shape. It should look for a buyer in whose portfolio the business will fit well. Such a buyer will always be willing to pay more as it will try to salvage and grow the business rather use it earn some money by selling to some other party. A company should avoid the situation when its divestment is seen as desperate sale. It will fetch less money and lot of disrepute. 3.4.2

Marketing Control The aim of control systems is to evaluate the results of marketing plan so that corrective actions can be taken if performance does not match objectives. Short-term control systems can plot results against objectives on a weekly, monthly, quarterly and/or annual basis. Measures include sales, profits, costs, and cash flow. Strategic control systems are more long term. Managers need to stand back from week by week and month by month results to critically reassess whether their plans are in line with their capabilities and environment. Lack of long term perspective may result in pursuit of plans which lave lost strategic credibility. New competitors, changes in technology and moving customer requirements may have rendered old plans obsolete. This returns the planning process to the beginning. Check Your Progress 7. What is flanking attack in terms of market implementation and control? 8. List the aim of marketing control systems.

62 Self-Instructional Material Marketing Planning and Control NOTES 3.5 SUMMARY In this unit, you learnt that: • Marketing plans ensure that the marketing mix for the product matches the changing needs of the customer, as well seeks opportunities to use the company's strengths to market other products in new markets. • Business mission is a means of giving direction to an organization in the sense of deciding what activities to focus on and where boundaries of these activities lie. The final determinants of business mission are the background of the company and personalities of the senior management. • Purpose can be defined as an objective that is more important than the stakeholder's individual interest. The effect is to draw together stakeholders, particularly employees, by showing that they can commit themselves to the business because of financial benefits and because the purpose of business is worthwhile. • Strategy involves making a conscious choice about a different set of activities that are slated to create a unique value proposition. The set of activities that have been chosen by a company must either be performed differently from competitors or a different set of activities must be selected. • Marketing audit is the basis upon which a plan of action to improve marketing performance can be built. The marketing audit sheds light on where the company is now; how the company get there and where the company is heading. • Competitor analysis examines the nature of actual and potential competitors and their objectives and strategies. It would also seek to identify their strengths, distinctive competencies, weaknesses, market share and size. • Profitability analysis examines industry profitability and comparative performance of competitors. Entry barrier analysis identifies the key financial and non-financial barriers that protect the industry from competitor attack. • Strategic issues analysis examines the suitability of marketing objectives and segmentation bases in the light of changes in the marketplace. • Opportunities and threats should be listed as anticipated events or trends outside the business that have implications for its performance. They should not be couched in terms of strategies. • A company can increase its sales volume by targeting the existing customers (increasing consumption per occasion, or increasing the frequency of consumption, or offering them new products) or by entering new market segments or by winning competitors' customers. • Three alternatives may be considered for rationalizing operations: market segment rationalization, product line pruning and distribution rationalization. • The core strategy focuses on how business objectives can be accomplished. It consists of three elements: target markets, competitor targets, competitive advantage. • Business must design an organization that has the capability of implementing the marketing plan, which may be to increase revenues and profits, or to maintain market share, or to increase profits at the cost of market share and future viability of the business or to move out of the business. • Competition has an important bearing on the firm's strategies. Besides satisfying its customers, a firm needs to tackle competition. To succeed the company has to satisfy its customers better than competitors.

Self-Instructional Material 63 Marketing Planning and Control NOTES • A firm can adopt build, hold, niche, harvest or divest strategies depending on its strategic intentions and the level of competition. Ideally most companies would like to build market share all the time. • Firms always need to look beyond their narrow band of competitors (other brands offering the same product) and evaluate various forces driving the industry. With their organizational competencies, they should aim at surpassing competition to occupy a dominant position in their markets. 3.6 KEY TERMS • Business mission: It is a broadly defined, enduring and specific statement of purpose that distinguishes a business from others of its type. • Market segmentation rationalization: It is the process of dropping of market segments to be served by the company, or serving them in a cheaper way (shifting from personal selling to telesales). •

Marketing audit: It is a systematic examination of a business's marketing environment, objectives, strategies and activities to identify key strategic issues, problems areas and opportunities. • SWOT analysis: It is a structured approach to evaluating the strategic position of a business by identifying its strengths, weaknesses, opportunities and threats. 3.7 ANSWERS TO 'CHECK YOUR PROGRESS' 1. The role of the marketing plan is to ensure that the marketing mix for the product matches changing customer needs as well as seek opportunities to use the company's strengths to market new products in new markets. 2. The three ways by which marketing planning problems can be handled are as follows: • Top management must be committed to planning and be seen by middle management to give it total support. • Planning should be given ongoing support, and not be treated as a short-term fad. • The reward system should reward the achievement of longer term objectives rather than focus exclusively on short-term results. 3. It is a broadly defined, enduring statement of purpose that distinguishes a business from others of its type. A business mission is specific to individual organizations. Business mission is a means of giving direction to an organization in the sense of deciding what activities to focus on and where boundaries of these activities. 4. A well-considered mission statement answers two questions: (i) What business the company is in? (ii) What business does the company want to be in? 5. The various strategic options that can be used to improve profitability are as follows: • Reduce costs • Rationalize operations • Increase prices

64 Self-Instructional Material Marketing Planning and Control NOTES 6. The core strategy focuses on how business objectives can be accomplished. It consists of three elements: (i) Target markets (ii) Competitor targets (iii)Competitive advantage 7.

Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. 8. The

aim of marketing control systems is to evaluate the results of marketing plan so that corrective actions can be taken if performance does not match objectives. Short- term control systems can plot results against objectives on a weekly, monthly, quarterly and/or annual basis. 3.8 QUESTIONS AND EXERCISES Short-Answer Questions 1. Why is a clear business mission statement a help to marketing planners? 2. What is meant by core strategy? What role does it play in the process of marketing planning? 3. Describe the advantages of marketing planning. 4. How should the marketing department of a company handle marketing planning problems? 5. What do you understand by marketing implementation? Long-Answer Questions 1. Is a company that forecasts future sales and develops a budget on the basis of these forecasts conducting marketing planning? 2. Why is competitor analysis essential in today's turbulent environment? How far is it possible to predict competitor response to marketing actions? 3. Compare and contrast the conditions conducive to building and holding market share? 4. A company should always attempt to harvest a product before considering divestment. Discuss. 5. Discuss the following in terms of market implementation and control. (a) Frontal attack, (b) flanking attack and (c) Guerrilla attack. 3.9 FURTHER READING Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.
Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.
Porter, M. E. (1985), op. cit.

Self-Instructional Material 65 Organizing for Marketing NOTES UNIT 4 ORGANIZING FOR MARKETING Structure 4.0 Introduction 4.1 Unit Objectives 4.2 Organization of Marketing Activities 4.2.1 Market-Oriented Organization 4.2.2 Functional Organization 4.2.3 Organization by Product Type 4.2.4 Organization by Market 4.2.5 Geography Based and Combination Organizations 4.3 Summary 4.4 Key Terms 4.5 Answers to 'Check Your Progress' 4.6 Questions and Exercises 4.7 Further Reading 4.0 INTRODUCTION Organizing for marketing consists of assigning tasks, grouping tasks into organizational units and allocating resources to organizational units. This determines the structure of the marketing organization and assigns responsibilities for the implementation of marketing activities. Organizational structures are vital in understanding how marketing tasks get accomplished in companies. They affect the type and flow of information and the pattern of resource allocation in a company. A formal organizational structure also affects processes and functional areas within a firm. Each organizational structure has advantages and drawbacks, but all provide ways to assign authority and responsibility for marketing activities to individuals and divisions within the total organization. In this unit, you will learn about organizing for marketing in detail. 4.1 UNIT

70%	MATCHING BLOCK 93/151	W

OBJECTIVES After going through this unit, you will be able to: • Understand the concept of

organization of marketing activities • Review market-oriented organizations • Assess functional organizations • Learn about organizations by product type • Know about organizations by market • Analyse geography-based and combination organizations

66 Self-Instructional Material Organizing for Marketing NOTES 4.2 ORGANIZATION OF MARKETING ACTIVITIES In most companies, marketing is a mixture of business activities rather than a simple, clear- cut organizational entity. Within the possible range of marketing's functions are tasks as diverse as formulating marketing plans and strategy, personal selling, managing field operations, sales support, product management, new-product development, overseeing distribution channels and reseller operations, market research, and advertising, sales promotion and other aspects of marketing communications. In most companies, moreover, these activities frequently exist at more than one level of the organization. 4.2.1 Market-Oriented Organization The marketing concept mandates two features of the marketing organization. One is that there is one person in the organization (or in each strategic business unit, if SBUs are identified) who is clearly responsible for managing all marketing activities. This manager holds a title such as vice-president of marketing. The second feature is the concentration of all marketing subfunctions under the direction of the primary marketing officer. All firms can make use of the marketing concept's organizational prescription i.e. assigning marketing responsibilities to a single executive and placing all marketing subfunctions under the control of that person. Yet each organization, especially if it is diversified, will be faced with the problem of refining its organizational structure to fit individual circumstances. Experience has shown that many types of organizational structures are well suited to marketing operations. 4.2.2 Functional Organization Marketing is divisible into many specific functions, or areas of specialization. It makes sense to consider organizing marketing activities around such functions or activities as sales, adverting, marketing research, or so on. The type of organization that results is the functional organization. A functional organization is considered appropriate for small companies with centralized operations and for some larger firms if their marketing operations are not complex. However, for firms, especially large ones, that serve multiple market segments with many products and brands, this form of organization can lead to coordination problems. In a functionally focused organization, a separate department is established for each major marketing function – for instance, product management, advertising, sales promotion, or market research. These functional departments can report either directly to the president of the company or division, or through a marketing vice president. Organizing by function is common when certain marketing tasks warrant special attention, the development of sustained expertise, and centralized oversight and control in their planning and execution. In many consumer goods firms, for instance, advertising or trade promotions represent a high proportion of total marketing expenditures, and the coordination of these activities across product lines has important advantages. There are also often scale economies available in these activities. Strengths The marketing planning for the business is centered in the president or the marketing vice president, organizational levels that are often in a better position than down-the-line executives to make broad strategy evaluations and decisions. The functional organization increases pools of expertise through specialization in key marketing activities of the business (e.g., advertising, product planning, promotions, or pricing). This can be especially important when state-of-the-art knowledge or technical skills are vital in the planning or execution of an activity.

Self-Instructional Material 67 Organizing for Marketing NOTES This form of organization is advantageous due to its administrative simplicity because it seemingly defines responsibilities and puts specific resources and people in place for key marketing activities. Weaknesses In many functionally focused marketing organizations, there is no mechanism for managers to resolve disagreements or make integrated decisions for a product or market below the level of marketing vice president or division top management. Hence, constant meetings and ad hoc arrangements tend to characterize these organizations. Further, while the senior managers of an organization may be in the best position to make cross-product strategy decisions, they are often not the best people to make specific judgments concerning a specific marketing program for a specific product or market. But the functional organization often requires these managers to become involved in these decisions, leading to a dysfunctional irony of organizational life. The functional organization is vulnerable to two different kinds of problems in the execution of marketing activities - fragmentation or redundancy. Since no one below the marketing vice president is assigned full responsibility for specific products or markets, there can easily be inadequate, fragmented planning for a given product or market. Products that are not familiar or favorites with various functional specialists tend to get neglected. Or the necessity for constant negotiations with different functional specialists tends to lead to an excessively short-term orientation. There is difficulty in measuring the results of functionally organized work, since the individual function is concerned with a part of the marketing program, not with its whole. Objectives for each function tend to be set in terms of professional standards rather than in terms of the success of the product or entire marketing program. Because of this, functional organization tends to breed levels of management that try to perform an integrating or coordinating role among functional specialties. Hence, despite the initial allocation of different jobs to different people, the necessity to deliver an integrated marketing program can lead to the duplication and redundancy of these activities within the functionally focused organization. Functional specialists tend to develop patterns of behavior and thought that are in tune with the demands of their jobs and their prior training, and so these specialists have different ideas and priorities when it comes to developing and executing a program. Also, each group develops its own subgoals, which usually includes gaining more budget and status versus other functions. Key Success Factors The key factors in managing the functionally focused marketing organization revolve around the theme of coordination: z Systems for ensuring that the goals of different functional groups are consistent and complementary; z Measurements that drive coordination of different marketing activities in terms of marketplace results and integrated marketing programs; z Human resource policies that encourage managers to develop broader perspectives than that available through a particular functional area of marketing. Because of its high coordination needs, functionally focused marketing organizations tend to have a number of cross-functional product planning committees, venture teams, and product or program integrators. These entities perform a role aimed at making trade-offs among different functional goals and relieve top management from having to arbitrate day- to-day choices between one function's imperatives and another. Check Your Progress 1. List a few activities that are covered under the range of marketing management. 2. What are the two features mandated by marketing management? 3. Why is a functional-type organization suitable for small business set-ups? 4. List any one advantage of functional organizations.

68 Self-Instructional Material Organizing for Marketing NOTES 4.2.3 Organization by Product Type The most common method of organizing marketing is by product. The product management organization establishes product or brand managers responsible for a product's marketing plan, coordinating its implementation, and achievement of volume, market share, and/or profit goals. Enlisting the support of sales, advertising, market research, manufacturing and finance is a key task of the product manager, especially since the product manager rarely has direct authority over other departments that are vital to the successful execution of marketing plans. Organizations that produce a wide variety of products often find it best to organize marketing activities around those products. The major rubber producers, for example, typically focus on one set of managers and efforts on the sale of standard automobile tires and another on the sale of off-the-road tires – the huge tires used for construction vehicles, tractors, and the like. Still another group of managers handles marketing of specialty tires for racing, motorcycles, and other specific uses. Belts, gaskets and other products are handled by yet another part of the firm. The product-based organization allows product or brand managers to concern themselves with a relatively small number of products or brands. This is especially efficient when managers must have extensive knowledge of the technical, industrial products. This type of marketing organization is particularly characteristic of companies in packaged goods industries. But many industrial marketers have also adopted product management organizations. Product managers have generally been used in those situations where a company has multiple products flowing through the same channels to the same (or related) customer groups. In this situation, the diverse requirements of taking different products to market are the focus of product management activities. Du Pont's Textile Fibers division long organized its marketing activities along product-focused lines. As a liaison among different groups over whom the product manager rarely has line authority, product managers must maintain good relationships with managers in other areas and optimize the attention and resources devoted to his or her particular product line. In many organizations, overt competition between product managers for limited sales, manufacturing or other resources is an accepted part of how things are done in the organization. In this situation, up-to-date information, skills in persuasion and influence-building, a detailed knowledge of how budgets are set and resources allocated within the company, become important aspects of the product manager's ability to perform. Strengths The strength of the product management organization is that it puts one person in charge of making a business plan work for each product and, thus, shortens the response time between changes in strategy and changes in product plans and programs required to implement the strategy. Accountability and overall responsibility for managing the tasks required to take a product to market are important goals in any organization. But they are also often ephemeral qualities, especially in large, complex organizations. As a result, general managers tend to appreciate a structure where they can attribute responsibility to one person. Another strength is the training and exposure individuals receive as they progress through the product management career path. The product managers can ultimately become general managers with increased experience and exposure due to constant interactions with other departments and functional areas. Weaknesses With each major product line supported by many brand assistants, the product management structure creates potential duplication of support activities. As a result, this structure tends to be most appropriate when a company markets multiple products, each with sales volume (or sales potential) sufficient to justify a separate line organization and where the differences

Self-Instructional Material 69 Organizing for Marketing NOTES in marketing strategies among the products are sufficiently great to warrant distinct attention by a specific marketing group. In many firms, the product management structure has been found to proliferate management layers, creating coordination problems among different groups. Another vulnerability inherent in this structure is that since the assignments in this organization are in terms of a particular product line, the result can be a myopic vision of the market in terms of current products and a corresponding decrease in the attention and resources devoted to new ways of serving customer needs. Key Success Factors The key success factors required to manage the product-focused organization are: z A process for ensuring that discrete product-marketing programs present a coherent message to common trade and/or end-use customers. z A measurement and incentive system that encourages attention to market trends and opportunities that fall outside the scope of individual product managers. z Ongoing vigilance concerning creeping overhead growth and duplication of expensive, time-consuming support functions. 4.2.4 Organization by Market Another form of organization involves a market manager who is responsible for administering all marketing activities (forecasting, products planning, pricing, and so on) that relate to a particular market. In this context, market is typically defined as a customer group (industry) or product application. A manufacturer of forklift trucks might sell to grocery wholesalers, but also to steel mills, and perhaps even to firms engaged in pulpwood logging. Because these types of customers clearly differ in what they expect from the forklift manufacturer, an organizational structure built around varying customer needs may be appropriate. Differences in the marketing mix required for each customer group may be so great that it is most efficient to have separate market managers, each with considerable knowledge about customer needs in a specific industry. Organization by market, or customer type, is most efficient when the strategic business unit has a single or dominant product line and divergent customer types that are readily identifiable. Market managers are prominent when the company needs to develop different markets for a single, or core product line. In the latter case, focus is on developing discrete markets, rather than on taking different products to a common market. Many companies sell the same or similar products to different markets via different distribution channels. A textile manufacturer, for example, may sell cloth through one channel to apparel firms and through other channels to furniture, bedspread, drapery or home-sewing markets. In other cases, the same company may market branded and private-label goods, with significantly different demand characteristics, purchasing criteria, and product expectations inherent in each market. Industrial companies frequently sell the same products to two or more classes of companies, each with different application needs. In these situations, organizing by market often allows for more effective development of specialized marketing programs for each major category of customers. Market and product managers are not mutually exclusive choices. But in the market-focused structure, market managers tend to focus on strategy development and the requirements of field execution in each market, while product managers are primarily concerned with line extensions and administration of activities such as product seminars and delivery schedules. In rapidly changing environments, it is difficult for one product-focused person or group to know enough about the characteristics and requirements of the different markets, and important opportunities will likely be missed. Without a sufficient focus on significant markets, Check Your Progress 5. List any two weaknesses of organizations by product type. 6. What are the success factors required to manage a product-focussed organization?

70 Self-Instructional Material Organizing for Marketing NOTES product development itself can lag behind rapidly changing user needs and product uses in a given segment. Strengths The most important strength of the market organization is its concentrated attention to defined groups of customers. Market managers become coordinating points for information on their markets, providing a coherent perspective for evaluating market trends, long-range planning, and promotional and distribution programs in each market. This form of organization, which essentially works backward from a user group to the development of different market-specific programs, is synonymous with marketing. It also helps to focus on heavy users in a given market via the development of specific product applications and services. This provides an opportunity for the vendor to become the preeminent supplier to such customers who, besides their high-volume purchasing patterns, often tend to be such accounts that influence the purchasing patterns of other companies in the industry. The development of cross-selling opportunities among a company's product portfolio is often easier to manage through a market-focused organization. Where a product manager concentrates on specific products, the market manager is likely to be more proactive in developing marketing programs that span individual product lines. Weaknesses The weaknesses of this structure involve the costs and scale required to maintain an efficient market organization, the potential complication of interfaces with other parts of the company, and the kinds of skills and expertise nurtured by this form of organization. The market-management structure tends to incur increased costs. In order to focus usefully on its designated customer group, market management generally requires its own market research activities and market-specific databases. The market-management structure often involves some inefficiencies and increased costs for other functional areas, especially manufacturing and operations. These arise due to a diversity of sizes, prices, line extensions, and promotional programs for different regions and different classes of trade. Marketing points to the need to defend the market share position. But the proliferation of market programs creates problems for manufacturing, administrative expenses in field operations and net product margins. These costs in terms of information gathering, field operations, and potential inefficiencies in other functional areas, underline the importance of scale for this organizational form. The markets chosen for discrete attention must be large and/or profitable enough to warrant the incremental costs. The focus and skills nurtured by the market-management structure can also create internal resource allocation problems for the firm. Because each market manager is focused on an assigned market, each manager may develop marketing programs without regard to the impact on the company's ability to sell to other markets with the same product line. A related issue is the longer-term impact on the allocation of human resources within the marketing organization. A market manager may know everything about the insurance industry, for example, but little about other customer groups for the company's products. Key Success Factors There are at least three key factors required to manage the market-focused organization effectively: z An ongoing data-gathering and analytical process that helps to ensure that the company's market-segmentation scheme in fact generates clearly defined and mutually exclusive

Self-Instructional Material 71 Organizing for Marketing NOTES markets. While market segmentation is a staple of good marketing practice in most situations, the market management structure places special pressures on management's abilities in this area. Since the point of this structure is to assemble interrelated market programs under a single management, market definition is crucial to the success of the market- management structure. z Measurement, incentive, and management communication systems that encourage coordination with other functional areas. In many companies, there are good reasons for retaining a product focus in manufacturing and R&D, even if marketing organizes by market. This complicates the interface between marketing and other areas, and requires measures and communications systems (e.g., planning processes) aimed at clarifying the trade-offs inherent in different market managers' requests of manufacturing and R&D. z Human resource policies (e.g. transfers, job rotation) that prevent excessive specialization within the market management structure. This danger is probably inherent in most forms of specialization, and thus points to a broader issue in organization - managers tend to favor paths of business growth that utilize existing skills, and over time they can easily learn more about less. Hence, a given market management team may sincerely champion the importance of its market despite better opportunities available to the company in other areas. The result is that a company may devote inordinate resources to lower- return markets, because the organization has in place a strong constituency whose professional interests are tied to those markets. 4.2.5 Geography-Based and Combination Organizations In more complex marketing operations – those active in numerous markets, those marketing numerous and varied products, or both – marketing activity may become decentralized and may be divided by geographic region. This is often the case with sales territories. In addition, entire strategic business units may be based on geographical decentralization. Geography- based organizations are used by companies that market to customer groups whose needs vary significantly from one geographic area to another. Strengths and Weaknesses of Geography based Marketing Organization Geography based marketing organizations are extremely useful in case of companies that sell multiple product lines and have customers who are geographically widespread. In such cases, control over geographical territories is effective as organizing marketing on other basis such as product, or function may prove to be more cumbersome. Besides, implementation and control over marketing activities becomes problematic. The main problem with this type of organization is coordination of efforts of similar functions or product lines across territories. Often, there is a certain amount of overlap among functional, product-based, market-based, and geography-based organizations. Usually, all factors – product mixes, customer needs, geography, marketing functions - are considered. Thus, the organization model followed by many companies is that of the combination organization. 4.3 SUMMARY In this unit, you learnt that: • Marketing is usually a mixture of business activities rather than a simple, clear-cut organizational entity. Within the possible range of marketing's functions are diverse activities that exist at more than one level of the organization. Check Your Progress 7. List any one key success factor of organizations by markets. 8. What kind of companies use the geography-based organizational model?

72 Self-Instructional Material Organizing for Marketing NOTES • All firms can make use of the marketing concept's organizational prescription i.e. assigning marketing responsibilities to a single executive and placing all marketing sub-functions under the control of that person. • Marketing is divisible into many specific functions, or areas of specialization. Thus, it should be considered to organize marketing activities around such functions, as sales, adverting or marketing research. The type of organization that results is the functional organization. • In a functionally focused organization, a separate department is established for each major marketing function: product management, advertising, sales promotion or market research. These functional departments can report directly either to the president of the company or division or through a marketing vice president. • The functional form of organization is advantageous due to its administrative simplicity because it seemingly defines responsibilities and puts specific resources and people in place for key marketing activities. • The functional organization is vulnerable to two different kinds of problems in the execution of marketing activities - fragmentation or redundancy. Since no one below the marketing vice president is assigned full responsibility for specific products or markets, there can easily be inadequate, fragmented planning for a given product or market. • A product management organization establishes product or brand managers responsible for a product's marketing plan, coordinating its implementation, and achievement of volume, market share, and/or profit goals. This is a key task, especially since the product manager rarely has direct authority over other departments vital to the successful execution of marketing plans. • In organizations by market, a market manager is responsible for administering all marketing activities (forecasting, product planning and pricing) that relate to a particular market. • Market managers are prominent when the company needs to develop different markets for a single, or core, product line. In the latter case, focus is on developing discrete markets, rather than on taking different products to a common market. • The most important strength of the market organization is its concentrated attention to defined groups of customers. This form of organization, which essentially works backward from a user group to the development of different market-specific programs, is synonymous with marketing. • In marketing operations, those marketing numerous and varied products, or both, marketing activity may become decentralized and may be divided by geographic region, e.g., sales territories, and SBUs may be based on geographical decentralization. • Geography-based marketing organizations are extremely useful in case of companies that sell multiple product lines and have customers who are geographically widespread. 4.4 KEY TERMS • Marketing function: It is a process that consists of assigning tasks, grouping tasks into organizational units and allocating resources to organizational units. • Product management organization: It is an organizational model that establishes product or brand managers who are responsible for a product's marketing plan; its implementation; and achievement of volume, market share and/or profit goals.

Self-Instructional Material 73 Organizing for Marketing NOTES 4.5 ANSWERS TO 'CHECK YOUR PROGRESS' 1. Within the possible range of marketing's functions are tasks as diverse as formulating marketing plans and strategy, personal selling, managing field operations, sales support, product management, new-product development, overseeing distribution channels and reseller operations, market research, and advertising, sales promotion and other aspects of marketing communications. 2. The marketing concept mandates two features of the marketing organization: (i) One is that there is one person in the organization, each strategic business unit (SBU) who is responsible for managing all marketing activities and holds the position of vice-president of marketing. (ii) The second feature is the concentration of all marketing sub-functions under the direction of the primary marketing officer. 3. A functional organization is considered appropriate mostly for small companies with centralized operations and for some larger firms if their marketing operations are not complex. In especially large firms that serve multiple market segments with many products and brands, it can lead to coordination problems. 4. The advantage of functional organizations is that they increase the pool of expertise through specialization in key marketing activities of the business (e.g., advertising, product planning, promotions or pricing). 5. The two weaknesses of organizations by product type are as follows: (i) In many firms, the product management structure has been found to proliferate management layers and create coordination problems among different groups. (ii) Since the assignments in this organization are in terms of a particular product line, the result can be a myopic vision of the market in terms of current products and a decrease in the attention and resources devoted to new ways of serving customer needs. 6. The key success factors required to manage the product-focused organization are as follows: • A process to ensure discrete product-marketing programs present a coherent message to common trade and/or end-use customers • A measurement and incentive system that gives attention to market trends and opportunities that fall outside the scope of individual product managers • Ongoing vigilance concerning overhead growth and duplication of expensive, time- consuming support functions 7. A key success factor of organizations by markets is that continuous data-gathering and analytical process helps to ensure that the company's market-segmentation scheme generates clearly defined and mutually exclusive markets. While market segmentation is a staple of good marketing practice in most situations, the market management structure places special pressures on management's abilities in this area. Since the point of this structure is to assemble interrelated market programs under a single management, market definition is crucial to the success of the market-management structure. 8. Geography-based organizations are used by companies that market to customer groups whose needs vary significantly from one geographic area to another.

74 Self-Instructional Material Organizing for Marketing NOTES 4.6 QUESTIONS AND EXERCISES Short-Answer Questions 1. What are the different types of marketing organizations? 2. Under what conditions should a company use geography-based marketing organization? 3. Under what conditions should a company use market-based and functional organizations? 4. What are the key success factors for an organization by market? Long-Answer Questions 1. Describe the organization by market, clearly stating its advantages and weaknesses. 2. Describe the organization by product type, clearly stating its advantages and weaknesses. 3. Describe a functional organization, clearly stating its advantages and weaknesses. 4. Assess the key success factors for an organization by product type. 4.7 FURTHER READING

Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.
Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.
Porter, M. E. (1985), op. cit.

MODULE - 2

76 Self-Instructional Material Marketing Information NOTES

Self-Instructional Material 77 Marketing Information NOTES UNIT 5 MARKETING INFORMATION Structure 5.0 Introduction 5.1 Unit Objectives 5.2 An Overview of Marketing Information 5.3 Marketing Research Approaches 5.4 Types of Marketing Research 5.5 Stages in the Marketing Research Process 5.6 Summary 5.7 Key Terms 5.8 Answers to 'Check Your Progress' 5.9 Questions and Exercises 5.10 Further Reading 5.0 INTRODUCTION To adopt
marketing orientation requires knowledge about customers and other aspects of the marketing environment that affect the company's operations. Questions like what kind of people buy the company's products, what they value in the product, and where they buy from, are important and should be answered.
For this the company should not rely solely on the internal views of managers. It
needs to find real views of the customer and then design marketing initiatives.
With growth in customer base, casual discussions
with customers, reports of salespeople, observation of competitor activities are unable to provide necessary in-depth market knowledge. A more formal approach, like collection of data through questionnaires, must be applied to supply information systematically to managers.
Marketing research has to move beyond its current methods.
Marketers and developers have to be intuitive and take the risks of developing products without any prompts from the customers.
In this unit, you will learn about marketing information in detail. 5.1 UNIT
OBJECTIVES After going through this unit, you will be able to: •
Get a comprehensive overview of information systems • Understand the various marketing research approaches • Know about the various types of marketing research • Analyse the stages in the marketing research process, with emphasis on survey methods, questionnaire design, data analysis and interpretation, and report writing and presentation 5.2 AN
OVERVIEW OF MARKETING INFORMATION
Marketing information is formally gathered, stored, analyzed and distributed to managers in accordance with their informational needs at a regular intervals on a planned basis. The system is built upon an understanding of the informational needs of marketing, and supplies that information when, where and how the managers require it. Data are derived from the marketing environment and transferred into information that marketing managers can use in their decision making.
78

Self-Instructional Material Marketing Information NOTES MIS comprises four elements: z Internal continuous data z Internal ad-hoc data z Environmental scanning z Marketing research z Internal continuous data MIS can convert financial data like profitability of a particular product, customer or a distribution channel into a form usable by marketing department. This is done by means of disaggregating the database of sales of products to customers. Information like allocation of discounts, promotional and transport costs to products and customers etc. are stored in the MIS. The detailed description of transaction with the customers and the associated costs allow marketers to carry out analysis of their marketing activities. Sales force are monitored by means of recording sales achieved, number of new accounts opened, size of orders, number of calls made etc. This can be recorded in total or broken down by product or customer. This data can provide information on sales force effectiveness. z Internal ad-hoc data The data of customer transactions and associated costs can also be used for specific purpose. Management may look at how sales have reacted to a price increase or change in advertising copy. Capturing data on MIS allows specific analysis to be conducted when needed. z Environmental scanning Environmental analysis whereby economic, social, legal, technological forces are monitored should be considered part of MIS. These are the forces that shape the context within which suppliers, company, distributors and the competition do business. Environmental scanning provides an early warning system for the forces which may impact a company's products and markets in the future. Scanning enables an organization to act upon rather than react to opportunities and threats. The focus is on the longer term perspective allowing a company to be in the position to plan ahead. It is a major input into strategic decisions. z Marketing research While environmental scanning focuses on the longer term, marketing research considers the more immediate situation. It is concerned with the provision of information about markets and reaction of these to various product, price, distribution and promotion actions. Marketing research contributes heavily to marketing mix planning. There are two types of marketing research: z External continuous data includes television audience monitoring and consumer panels where household purchases are recorded over time z External ad hoc data are gathered by means of surveys into specific marketing issues including usage and attitude studies, advertising, product testing etc. 5.3 MARKETING RESEARCH APPROACHES

Depending particularly on the resources allocated to marketing research there are four ways of conducting marketing research.

Check Your Progress 1. What are the four elements of marketing information? 2. How can sales force effectiveness be determined? 3. What are the two types of market research?

Self-Instructional Material 79 Marketing Information NOTES • By the marketing department itself

The company has marketing staff, but low marketing research budget. The marketing staff carry out the marketing research themselves. This is done when the study is small, perhaps involving data gathering from small sample sizes, for instance, industrial marketing research studies involving small number of organizational customers, that are normally done by the marketing department itself. This approach is also adopted when the information can be acquired from secondary sources like journals, internet, company records etc. • By the marketing research department The company hires a marketing research executive who designs, implements and presents marketing research surveys to the marketing department. If the services of a marketing research agency are used, the executive would act as a link between company and the agency. • Fieldwork by an agency The design of the study is done in the company either by the marketing research department or the staff of the marketing department, but the fieldwork like conducting interviews, is done by the marketing research agency. • The full services of a marketing research agency is used

A company uses the full services of the

marketing research agency. The company briefs the agency about its marketing research requirements and the agency does the rest. The agency prepares a research proposal stating the survey design and costs, conducts exploratory research, designs the questionnaire, selects the sample, chooses survey methods (telephone, postal, face to face), conduct interviews, analyzes and interprets the results, prepares a report and makes a presentation. 5.4 TYPES OF MARKETING RESEARCH A major distinction is between ad-hoc and continuous research. Ad-hoc research An ad-hoc research focuses on a specific marketing problem and collects data at one point in time from one sample of respondents. For example, a company wants to find the impact of its latest advertising campaign on its sales. Ad-hoc surveys are either custom designed or omnibus studies. z Custom designed studies are based on specific needs of the client. The research design is based on the research brief given. The questionnaire is designed specifically for finding a solution to the client's problem. z For omnibus survey, space is bought on a questionnaire for face to face or telephone interviews. The interview may cover many topics as the questionnaire space is bought by a number of clients who benefit from cost sharing. Continuous research interview In this method the same respondents are interviewed repeatedly.

z

Consumer panels Consumer panels are formed by recruiting large number of households which provide information about their purchases over time. By using the same households and tracking the same variables over a period of time, measures of brand loyalty and switching can be determined. The demographic profile of the type of person who buys a particular brand can also be found out. Changes in market share can also be examined over time.

Thus, it is possible to track even small behavioral changes in response to changes in marketing variables.
z
Retail audits Sales of brands can be measured by means of laser scans of barcodes on packaging which are read at the checkout. Brand loyalty and switching cannot be measured, but accurate assessments of sales achieved by the store and competitive activity is provided. For identifying geographic areas or type of outlets where new products may be introduced, such audits can be particularly useful. Potential problems related to distribution, in-store promotions or layout can also be assessed by using retail audits. Sales potential and sales forecasts can also be planned with such data. z Television viewership panel The audience size of a program is measured minute by minute. Commercial breaks can be allocated rating points according to the proportion of the target audience watching the program. This is the currency by which television advertising is bought and judged. Peoplemeters record whether the set is on or off, which channel is being watched and by means of a hand console, who is watching. The accuracy of the data depends on the representativeness of the panel and the extent of unbiased audience responses. 5.5
STAGES
IN THE MARKETING RESEARCH PROCESS Initial contact There is a realization that a marketing problem requires information to help find its solution. The marketing department may contact the internal marketing research staff or an outside agency. Assuming that the research requires the assistance of a marketing research agency, a meeting is arranged to discuss the nature of the problem and the client's research needs. If the client and its market are new to the agency, some rudimentary exploratory research, like a search on the internet, is conducted prior to meeting. Research brief At the meeting the client explains the marketing problem and the research objectives. The marketing problem may be to attract new customers to a product and the research objectives would be to identify customers who can use the product and to identify the features of the product that appeals to them most. The client may also provide the product's history and competitive strategy, list of industries that might be potential users of the product, whether the client is looking for a modest research or an exhaustive study, and when the information is required. The client should produce a specific written brief stating his requirements. This is used as a benchmark if disputes arise. Commissioning a good research is similar to buying any other product. The marketing department and the agency should agree on why research is needed, what it will be used for, when it is need and how much is to be paid for it. Prerequisites for commissioning a good research z Terms like market, market share, competitors should be clearly defined for the purpose of the research.
z
Some researchers in the MR agency may be specialist in a particular data gathering method like group discussion and they may bend research problems to use their favorite methods. This may be expensive in addition to the method being inappropriate for the research. The company must familiarize itself with the MR agency and people handling their research project.
Check Your Progress 4. List two scenarios when the marketing department conducts market research. 5. What is an omnibus survey? 6. What is the purpose of forming consumer panels?
 z
Allow the researcher to ask even naïve questions. Clearing doubts about
the
problem to be examined, or related background information can avoid costlier problems in the future.
z
Brief two or three agencies to get diverse viewpoints on the research problems. Research proposal The research proposal defines what the marketing research agency promises to do for its client and how much it will cost. It should be written to avoid misunderstanding. It should demonstrate an understanding of client's marketing and research problem. It should contain an unambiguous description of research design including survey method, type of sample, sample size, collection and analysis of data, when report will be produced and how much the research will cost. Vagueness should be avoided in the proposal. The agency should state very clearly what it is going to do and why, who is going to do it and when. The agency should avoid
using

jargons. It is the responsibility of the agency to make the proposal understandable to the client. The client should beware of omissions. The client should also check if everything that is required from the agency is mentioned in the proposal. Anything which is not specified will not be provided. If there is any doubt about an issue, the client should ask the agency for clarification. The research proposal should first define the problem. For doing this, the researcher must consider the purpose with which the study is being conducted, the available information, additional information required and how would such information aid the client in the decision making process. The problem can be formulated without much consultation, though frequently it may involve discussions with decision makers in the company, experts outside the client's company, use of secondary data or even some exploratory research, for instance, a few focus groups. This should be followed by developing an approach to the problem. This involves developing a framework for analyzing the problem. Relevant questions for which answers are needed by conducting the research must be clearly propounded in this step. The research design should explain the methods of collecting data, sampling plan and a plan for data analysis. The client should be clearly told about the sources from where the relevant data can be obtained, the time frame within which the entire study will be completed and the modus operandi of conducting the study. Types of research methods Exploratory research
Exploratory research is the
preliminary exploration of the research area prior to main quantitative data collection and after the acceptance of the proposal by the client. But it can also take place before the client-agency briefing meeting and submission of the proposal. It can also be used in the problem definition process. Hypothesis generated in this stage can be tested further by undertaking quantitative research. Exploratory research allows the researcher to understand the people who are to be interviewed in the main data collection stage and the market that is being researched. Researcher's ill-informed prejudices and guessworks can be avoided if exploratory research has been done diligently. Exploratory research is used when the available data is insufficient for proceeding further. It enables the MR firm to gain better insights about the problem in hand. The objective of exploratory research is not to collect data and form conclusions but to get better acquainted with the market and its customers. The quantitative research is based on informed assumptions rather than guesswork.
82
Self-Instructional Material Marketing Information NOTES z
Secondary research Secondary data is compiled by other people and for other purposes and is not meant specifically for the research in question. Internal records and reports of previous research carried out by the company, external sources like government, trade associations, newspapers, magazines, internet may be sources
of
obtaining secondary data. Secondary data is easy to access and obtain, and is relatively inexpensive. If secondary research is not carried out, an expensive primary research may be commissioned to provide data that is already available. Secondary data is generally used to understand the problem, to define the problem better, to develop an appropriate approach to the problem, to formulate a suitable research design or to answer certain questions. It can also be used to interpret primary data more insightfully. z Qualitative research Focus groups involve unstructured or semi-structured discussions between a trained moderator, who is often a psychologist, and a group of consumers. The moderator has a list of areas to cover within the topic and leads the discussion, but allows the group considerable freedom to discuss issues which are important to them. By arranging groups of people to discuss their beliefs, attitudes, motivations, behaviors and preferences a good deal of knowledge is gained about the consumer. Focus groups are valuable due to the unexpected findings that emanate from free-flowing discussions among customers. Such discussions are likely to reveal complex and subtle relationships between consumers and products. The discussions are not based on percentages, averages or other numbers that are impersonal in nature. Marketers are directly in contact with their customers and focus groups often stimulate new ideas for them. The resultant data from focus group discussions is interpreted by experts. The data obtained from discussions is helpful when designing the questionnaire for conducting quantitative research, which will focus on what is important to the respondent. The instrument is thus worded in the language that the respondent uses and understands. However, focus groups are not representative of the population, and hence cannot be the sole basis for decision making. For instance, the size of the target audience holding a particular type of views cannot be gauged by conducting focus group discussions. Depth interviews involve interviewing consumers individually for one or two hours about a topic. The objectives are similar to the group discussions, but depth interviews are used when presence of other people could inhibit honest answers and viewpoints, when the topic requires individual treatment like in finding an individual's decision making process, and where
organization of

a group is not feasible as is the case with busy executives. The questionnaire is usually in the form of an outline, allowing respondents to freely express their views about the topics being questioned. Thus, there is a lot of flexibility for the researcher in this method, and responses that are obtained may yield new ideas which otherwise could not have been obtained by means of structured questionnaires. Depth interviews are difficult to standardize as no two interviewers are like to proceed in absolutely similar manner, and their biases are also likely to reflect in the results if the interviewers are not adequately trained. The result of the qualitative research has to be studied carefully as they are based on small sample sizes. Much depends on the ability to interpret subjective data and may vary from one analyst to the other. More interesting or surprising viewpoints may be disproportionately reported. The quality of the data obtained also depends on the skills of the interviewer. Qualitative methods of data collection take longer time and are more expensive.
Self-Instructional Material 83 Marketing Information NOTES
Consultation with experts involves interviewing people who may not form part of the target market but can provide important market related information and insights. Experts may be from universities, financial institutions and press who are willing to share their knowledge. They may also include lead users of products of a company. They provide background information and are useful for predicting future trends and developments. Observation is useful when the product filed is unfamiliar. It is an unintrusive method of studying consumer behavior. Observation studies are usually conducted in retail stores to track consumer purchases. Various data such as the amount of time spent by the customer, number of choices considered, amount purchased, shopping influences, amount spent, reasons for selection or rejection etc. can be observed. Much depends on the skills of the researcher in gathering and interpreting data. Descriptive research Descriptive research,
describe something. Such research may be, for instance, meant to describe
customers' beliefs, attitudes, recall of advertisements and knowledge about its content. However such researches are not merely fact finding exercises, but
are
meant to gather data for specific objectives. Descriptive research differs from exploratory research in terms of the formality and structure with which the research is planned. Data obtained from such researches
are
usually used in taking marketing decisions. Relationships among various variables are examined in such researches, though cause-effect relationship cannot be established. Descriptive research is quantitative in nature, involving surveys using questionnaires and statistical analysis. Large and representative sample sizes permit generalization of results, aiding in the decision making process and the collection as well as interpretation of data is objective. Experimental research Experimental research establishes cause and effect. It involves setting up of control procedures to isolate the impact of a factor like money-off on a dependent variable like sales. The key is elimination of other explanations of changes in dependent variable. Random sampling may be used. Money off may be applied in a random selection of stores with the remaining stores selling the brand without money-off. Statistical significance testing can be used to test whether differences in sales are caused by money-off or
are simple random variations. Main data collection stage z
Sampling process The sampling process aims at deciding who and how many people should be interviewed. First, the universe, i.e., the group which forms the subject of study has to be clearly defined. The universe depends on the objectives of the study. The sampling frame must be chosen next. This comprises the list or other records of the chosen universe from which a sample can be selected.
z
Sample size Next, it is important to determine the sample size. This involves arriving at the number of respondents who must be surveyed to yield a representative sample of all demographic subgroups of respondents who are being studied. The larger the sample size, the more does the sample represent the population. Sampling error is the error caused by not interviewing everyone in the population. Number of people interviewed is based on a balance between sampling error and cost consideration.
84
Self-Instructional Material Marketing Information NOTES z
Sample selection After selecting the sample size, it must be determined as to how the sample would be selected for response. The sample can be selected by using either the probability methods or by using the nonprobability methods. The probability method is when every sampling unit has an equal probability of being selected. The selection of every item in the sample is independent of the person who conducts the survey. There are three probability sampling methods: z Simple random sampling: In this method each individual in the sampling frame is given a number, and numbers are drawn at random until the sample is complete. Everyone on the list has an equal chance of selection. z Stratified random sampling: Population is broken down into groups, such as those on the basis of age, gender or income, and the random sample is drawn from each group. Each group gets representation in the sample.

z
Cluster sampling: The population is divided into mutually exclusive groups, such as residential blocks, and the researcher randomly selects residential blocks to be interviewed. In the nonprobability sampling methods, every sampling unit does not have an equal probability of being selected. Thus, there is some researcher bias in selecting the sample item. There are three nonprobability sampling methods:
z
Convenience sample: The researcher selects the most easily available sampling units or respondents from the population and interviews them. z Judgement sample: The researcher uses judgment to select population members from whom appropriate information can be obtained. z Quota sampling: The sampling frame does not exist, but percentage of population that falls in various groupings like age, gender is known. The sample is construed by asking interviewers to select individuals on the basis of these percentage, for instance, roughly 50:50 females to males. This is a non-random method since not everyone has equal chance of selection but is much less expensive than random methods when the population is widely dispersed. The difference between quota sampling and stratified sampling method is in the method of selection of the sampling units. In the former, the sampling units are selected by nonrandom methods such as by convenience or judgment, while in the latter, they are selected on a random basis. Survey methods Survey method involves selecting how to interview the respondents who have been selected. z Face to face interviews Response rates are higher as the personal element in face to face interview makes refusal to respond less likely. Such interviews can be self-administered, i.e. completed by the respondent himself, or administered by the researcher. In sample surveys, personal interviews are used frequently. Probing of the respondent is easier with face to face interviews. Clarifying probes help interviewers to understand what the interviewee is saying. Exploratory probes stimulate interviewees to give full answers. Probing is possible but restricted due to time pressures and the less personalized situation in telephonic interviews. Visual aids can also be used in face to face interviews. However, interviewer bias may creep in during selection of respondents and administration of the questionnaire. Preparing a structured questionnaire can eliminate some element of interviewer bias.
Self-Instructional Material 85 Marketing Information NOTES
Experimental design i.e. testing effectiveness of a stimulus would normally be conducted by this method rather than by a mail survey where there is high non-response rate and lack of control over who completes the questionnaire that would invalidate the results. Use of many open-ended questions in a mail survey would lower response rates, and time restrictions for telephone interviews limit their use for conducting interviews. But personal interviews are expensive. The presence of an interviewer can cause bias i.e. the respondent may give socially desirable answers and that may lead to misreporting of sensitive information. z Telephone interviews Telephonic interviews have response rates and cost in between face to face interviews and mail surveys. Telephonic interviews allow some degree of flexibility when interviewing, as there is a two way flow of information between the interviewer and the respondent, which is absent in mail surveys, but this flexibility is lesser than in personal interviews. Use of visual aids is not possible. There are limits to the number of questions asked before the respondent either terminates the interview or gives quick and sometimes invalid answers to speed up the process. The use of computer aided interviewing is growing. The presence of accurate databases helps telephonic interviews immensely. Certain type of surveys, for instance, feedback studies, and studies that explore prospective customers can be done by using telephones. z Mail surveys These are least expensive and can cover widely dispersed population. Response rate is very low and there is danger of unrepresentative sample. The questionnaire is fully structured and probing is not possible. Control over who fills the questionnaire is low. Visual aids can be supplied and because of self completion,
the
interviewer bias is less. Response rate can be increased by prior notification by telephone, monetary and non- monetary incentives, by providing stamped return envelopes, granting anonymity to respondents, close end questions in the questionnaire and follow up telephone calls. Questionnaire design Three conditions are necessary to get a true response to a question – respondents must understand the question, they must be able to provide information, and must be willing to provide it. Questions need to be framed in the language that respondent understands. Researcher must not ask about issues that respondents cannot remember or are outside their experience. Researchers need to consider the best way to elicit sensitive or personal information.

Design stage z Ordering of topics: Start with easy to answer questions. Respondents are anxious that they might show their ignorance at the beginning. Ask awkward questions before attitude measurement. Unaided awareness questions must be asked before aided ones. Classification information such as age, occupation are asked last. z Type of questions: Close-ended questions specify the rage of answers that will be recorded. Open-ended questions allow respondents to answer questions in their own words. z Take care in wording of questions. Guard against ambiguity, leading questions, asking two questions in one and using unfamiliar words. Instructions should be printed in capital letters or underlined so that they are easily distinguished from questions. z Layout: The questionnaire should not appear cluttered. In mail questionnaire it is a mistake to squeeze in too many questions on one page to reduce the number of pages.
86 Self-Instructional Material Marketing Information NOTES Response is likely to be lower if the questionnaire is heavy than if its page length is extended. z Scaling: Attitudes and beliefs can be measured by means of scales for instance, a scale ranging from "Strongly agree" to "Strongly disagree". z Probes and prompts: They seek to explore or clarify what a respondent has said. Respondents may use vague words or phrases. 'Probe' is used to get clarifications 'prompts' are used to elicit responses to a question. Pilot stage Once the preliminary questionnaire has been designed it should be tested with a representative subsample to test for faults. Piloting tests questionnaire design and helps to estimate costs. If the pilot proves satisfactory, the final questionnaire is administered to a chosen sample. Usually, the reliability and validity of the instrument is checked during this stage. Other problems such as response and nonresponse errors, the ability of respondents to understand the instrument, length and time taken to complete the instrument are assessed in this stage. If the first pilot study identifies some drawbacks in the instrument, i.e. the questionnaire, a second pilot may have to be conducted to rectify the errors and retest the new questionnaire that has been formulated.
Data analysis and interpretation Before analysis and interpretation, the data has to be prepared first. The raw data that has been collected must be edited. Preliminary checks must be conducted to improve the quality of the data collected. It must also be verified that the sampling instructions have been adhered to. Such checks must be done during the data collection process as well as at the end. Thereafter, the data has to be codified and tabulated. These procedures must be done by those who are familiar with the entire research from the objectives to the research design. Basic marketing research analysis can be carried out using software analysis packages. Sophisticated analysis is conducted using packages such as SPSS. Analysis may be carried out to find means, standard deviation, frequency tables, cross tabs and conduct other advanced statistical analysis. Several sophisticated statistical analysis may be used to formulate decisions such as segmentation of the relevant target audience, identifying key factors in new product launches, tracking brand image etc. Care is required when interpreting marketing research results. One common failing is to infer cause and effect when only association has been established. For instance, a relationship that sales rise when advertising levels increase does not necessarily mean that raising advertising expenditure will lead to increase in sales. Other marketing variables for instance,
sales force
effect, may have increased at the same time as the increase in advertising. A second cautionary note concerns interpretation of means and percentages. Given that a sample has been taken, any mean or percentage is an estimate subject to sampling error, i.e. the error in an estimate due to taking a sample rather than interviewing the entire population. Statistical hypothesis testing allows sampling differences to be evaluated in light of sampling error to establish whether they are likely to be real differences i.e. statistically significant difference or likely to be a result of taking a sample rather than interviewing the entire population. Report writing and presentation The results of the research have to be presented in the form of a report or a presentation. The key elements in a research project are:
Self-Instructional Material 87 Marketing Information NOTES z
Title page, containing the topic of the research study, Time of the study, To whom is the report being submitted to, and By whom has the research been done. z List of contents, containing a detailed list of the contents of the report along with page numbers, List of tables, and List of figures in the report.
z
Preface, containing Outline of agreed brief, statement of objectives, scope, and methods of research.
z
Executive summary, containing a summary of conclusions and recommendations, preferably listed point wise. The purpose of the executive summary is to provide the gist of the report for those who do not have the time to read the complete report. z Previous related research should detail how previous research has had a bearing on this research. This section should list out the methodology, context and results and conclusions of related researches done earlier to provide a relevant perspective for the present study. z Research methods, which explains the methodology used for the purpose of the present research. This includes details about the type of study, sampling issues, data sources, data collection methods, use of instruments, preparation of the instruments and method of administration.
z

Research findings, which should detail the results of the study according to the objective with the study was initiated. z Conclusions of the study, along with suitable recommendations. z Appendices, including reports, articles, tables and figures that are not directly related to the study, or can interrupt the flow of the report, though are useful as background information. The report should be written in
the
language which the reader will understand. Jargons should be avoided. The most important part of the report are the findings and conclusions based on the survey. These should be presented in a clear and lucid manner. As far as possible, the results should clearly point to some outcomes or suggestions that can help
the
management in taking decisions or solving the problems that were outlined in the objectives of the study. Sometimes results may point towards additional research required. 5.6
SUMMARY In this unit, you learnt that: •
Marketing information is formally gathered, stored, analyzed and distributed to managers in accordance with their informational needs at regular intervals on a planned basis. •
Financial data like profitability of a particular product, customer or a distribution channel into a form usable by marketing department. This is done by means of disaggregating the database of sales of products to customers. • Sales force are monitored by means of recording sales achieved, number of new accounts opened, size of orders, number of calls made etc. This can be recorded in total or broken down by product or customer. • Environmental analysis shapes the context within which suppliers, company, distributors and the competition do business. It provides an early warning system for the forces which may impact a company's products and markets in the future. • Scanning enables an organization to act upon rather than react to opportunities and threats. It is a major aspect of strategic decisions. Check Your Progress 7. List any two prerequisites for commissioning a good research. 8. What is exploratory research? 9. How is observation of a subject considered useful for qualitative research?
88 Self-Instructional Material Marketing Information NOTES • Marketing research is concerned with the provision of information about markets and reaction of these to various product, price, distribution and promotion actions. It contributes heavily to marketing mix planning. • There are four ways of conducting market research, based on resources allocated to the marketing department: research conducted by the marketing department, research conducted by the marketing research department, research conducted by the fieldwork agency and research conducted by the full-services agency. • When market research is conducted by a market
research firm, the company hires a marketing research executive who designs, implements and presents marketing research surveys to the marketing department and marketing research agency's executive acts as a link between the company and the agency. •
An ad-hoc research focuses on a specific marketing problem and collects data at one point in time from one sample of respondents. For example, a company wants to find the impact of its latest advertising campaign on its sales. • Custom-designed studies are based on specific needs of the client. The research design is based on the research brief given. The questionnaire is designed specifically for finding a solution to the client's problem. •
The research proposal should first define the problem. For doing this, the researcher must consider the purpose with which the study is being conducted, the available information, additional information required and how would such information aid the client in the decision making process. •
Consultation with experts involves interviewing people who may not form part of the target market but can provide important market related information and insights. Experts may be from universities, financial institutions, press
or lead users of products of a company. •
Descriptive research differs from exploratory research in terms of the formality and structure with which the research is planned. Data obtained from such researches
are usually used in taking marketing decisions. •
Sample size involves determining of respondents who must be surveyed to yield a representative sample of all demographic subgroups of respondents who are being studied. The larger the sample size, the more does the sample represent the population. •
There are three non-probability sampling methods: convenience sample, judgement sample and quota sample. • Mail surveys are the least expensive of all survey methods
and can cover widely dispersed population. Response rate is very low and there is danger of unrepresentative sample. The questionnaire is fully structured and probing is not possible. •
In designing a questionnaire, the following elements should be considered: ordering of topics, type of questions, wording of questions, layout, scaling, probes and prompts. • The title page, time of the study, list of contents, numbers, list of tables and figures in the report, preface, statement of objectives, scope and methods of research,

and executive summary are some of the key elements of report writing and presentation. 5.7 KEY TERMS • Advertising brief: It is a document that guarantees understanding between a client and advertising/market research agency for the objectives of an advertising campaign, identification of customer segment, strategies to be adopted and cost expected to be incurred.

Self-Instructional Material 89 Marketing Information NOTES • Continuous research interview: It is process of marketing research in which the same respondents are interviewed repeatedly. • Full-services marketing agency: An agency in which

the company briefs the agency about its marketing research requirements and the agency prepares a research proposal stating the survey design and costs, conducts exploratory research, designs the questionnaire, selects the sample, chooses survey methods, conducts interviews, analyses and interprets the results, prepares a report and makes a presentation. •

People meter: They are instruments that measure the viewing habits and patterns of TV and cable audiences. 5.8 ANSWERS TO 'CHECK YOUR PROGRESS' 1. The four elements of marketing information are as follows: (i) Internal continuous data (ii) Internal ad-hoc data (iii)Environmental scanning (iv)Marketing research 2. Sales force are monitored by means of recording sales achieved, number of new accounts opened, size of orders, number of calls made and so on. This can be recorded in total or broken down by product or customer. This data can provide information on sales force effectiveness. 3. The two types of market research are as follows: (i) External continuous data: television audience monitoring and consumer panels (ii) External ad hoc data: surveys into specific marketing issues including usage and attitude studies, advertising, product testing 4. The market department conducts market research in the following two scenarios: (i)

When the study is small, perhaps involving data gathering from small sample sizes, for instance, industrial marketing research (

ii)

When the information can be acquired from secondary sources like journals, Internet, company records

and so on 5. An omnibus survey is that in which

space is bought on a questionnaire for face-to-face or telephone interviews. The interview may cover many topics as the questionnaire space is bought by a number of clients who benefit from cost sharing. 6.

Consumer panels are formed by recruiting large number of households which provide information about their purchases over time. By using the same households and tracking the same variables over a period of time, measures of brand loyalty and switching can be determined. 7. The

two pre-requisites that must be considered for conducting a good research are as follows: (i)

Allow the researcher to ask even naïve questions. Clearing doubts about

the

problem to be examined or related background information can avoid costlier problems in the future. (

ii)

Brief two or three agencies to get diverse viewpoints on the research problems. 8. Exploratory research is

the

preliminary exploration of the research area prior to main quantitative data collection and after the acceptance of the proposal by the client.

90

Self-Instructional Material Marketing Information NOTES 9. Observation

is an un-intrusive method of studying consumer behaviour. Observation studies are usually conducted in retail stores to track consumer purchases. Various data such as the amount of time spent by the customer, number of choices considered, amount purchased, shopping influences, amount spent, reasons for selection or rejection etc. can be observed. 5.9

QUESTIONS AND EXERCISES Short-Answer Questions 1. What are the essential differences between marketing information system and marketing research? 2. What are secondary and primary data? Why should secondary data be collected before primary data? 3. What is the difference between a research brief and proposal? 4. What are the key elements of report writing and presentation? Long-Answer Questions 1. What advice should be given to a marketing research agency when making a research proposal? 2. Should mail surveys be used only as a last resort? Give reasons in support of your answer. 3. Discuss the problems of conducting a multi-country market research survey? How can these problems be minimized? 4. Why are marketing research reports more likely to be used if they conform to the prior beliefs of the client? Does this raise any ethical questions regarding the interpretation and presentation of findings? 5.10 FURTHER READING Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.

Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.

Porter, M. E. (1985), op. cit.

Self-Instructional Material 91 Consumer Behaviour NOTES UNIT 6 CONSUMER BEHAVIOUR Structure 6.0 Introduction 6.1 Unit Objectives 6.2 The Buyer 6.2.1 Initiator 6.2.2 Influencer 6.2.3 Payer 6.2.4 Decider 6.2.5 Buyer 6.2.6 User 6.3 The Buying Process 6.3.1 Problem Recognition 6.3.2 Information Search 6.3.3 Evaluation of Alternatives and Purchase 6.3.4 Purchase and Post-Purchase Evaluation of Decision 6.4 The Buying Situation 6.4.1 Extended Problem Solving 6.4.2 Limited Problem Solving 6.4.3 Habitual Problem Solving 6.5 Determinants of Consumer Behaviour 6.5.1 Internal Factors 6.5.2 External Factors 6.6 Customer Loyalty and Profitability 6.7 Emotional Engagement with Customers 6.8 Customer Relationship Management 6.9 Relationship Marketing 6.10 Summary 6.11 Key Terms 6.12 Answers to 'Check Your Progress' 6.13 Questions and Exercises 6.14 Further Reading 6.0 INTRODUCTION

The types of behaviours that different customers demonstrate in buying and using the same product and the different types of behaviors that the same customer demonstrates in buying different products

are brief indications of consumer behavior.

Even the same customer may not behave in an equivalent fashion while buying the same product under varying circumstances. By studying

consumer behavior,

it becomes possible to segment the market in new ways and serve them with different marketing mixes even if the product of the various marketing mixes may be the same. Alternately, differential offerings for various segments can be developed with different marketing mixes.

Consumer behavior influences the choice of target markets and the nature of marketing mix developed to serve it. The following are some of the important questions asked about consumers while examining their buying patterns: • What are the consumers buying? • Who is important in the buying decision? • How do they buy?

92

Self-Instructional Material Consumer Behaviour NOTES •

What are their choice criteria? • Where do they buy from? • When do they buy?

In this unit, you will learn about consumer behaviour in detail. 6.1 UNIT

OBJECTIVES After going through this unit, you will be able to: •

Get to know who the buyer and buying groups are in the buying process • Understand the buying process, in terms of evaluation of alternatives and purchase • Assess the buying situation, and understand about extended, habitual and limited problem solving • Know the internal and external determinants of consumer behavior • Review the concepts of customer loyalty and profitability and emotional engagement with customers • Analyse what customer relationship management and relationship marketing are 6.2 THE BUYER Many consumer purchases are done by individuals, but purchases are also made by groups such as a household. A number of individuals may interact to influence the purchase decision. Each person may assume a role in

the decision making process. 6.2.1 Initiator The person who starts the process of considering a purchase is the initiator, since he feels the need for the product. He may also initiate the search for information about the purchase decision on his own, or by involving others. For instance, a teenager may act as an initiator for a motorcycle that he wants for commuting, a housewife may feel the need for a higher capacity refrigerator, or a busy executive may feel the need for apparel that is comfortable and stylish. 6.2.2 Influencer The influencers attempt to persuade others in the decision making process to influence the outcome of the decision making process. Influencers gather information and attempt to impose their choice criteria on the decision. These influencers may be sought out by the initiator, or may supply relevant information on their own. Influencers may be a part of the reference group of the initiator, experts in the particular categories, retailers, or other such individuals from whom information is sought.

For the teenager, his friends, family members and retailers could act as influencers. For the housewife, influencers could be her husband, children, friends or retailers; and for the executive, influencers can be other colleagues in his organization, his contemporaries in other organizations, his friends in other firms etc. Influencers vary in the extent to which they can change or persuade players in the decision making process. The teenager may consider his friends to be more important in suggesting what brands to buy or what features to evaluate before buying, than his parents.

Self-Instructional Material 93 Consumer Behaviour NOTES 6.2.3

Payer The payer is the individual with the power or/and financial authority to purchase the product. The payer is usually presumed to have a large influencing power on the product purchase as the spending power lies with him.

For the teenager's decision making process, he could be the payer if he has sufficient money, else some elder in the family can be the payer. In case the payer is his father or an older sibling, he may be more obligated to listen to their suggestions than his friends. In the case of the refrigerator buying decision, the husband could be the payer. In case of the executive, he himself shells out the payment. 6.2.4

Decider The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision making process. The teenager himself may be the decider, or the ultimate decision could be taken by the payer (and the teenager may have to compromise). In case of the housewife, she could be the decider or the husband can be dominant. In both these decisions, much depends on the interplay of the various players involved in the decision making process. The husband and wife can jointly negotiate which refrigerator to buy if both have an equal say in the buying process. In case of the executive, he plays multiple roles of being an initiator, payer, decider, buyer and user. 6.2.5

Buyer The buyer conducts the transaction. He visits stores, makes payments and effects delivery. Usually, the buyer is the only player whom the marketer can see being involved in the decision making process. Merely interviewing him about the purchase does not serve the purpose of the marketer who wants to explore the consumer decision making process, as at the time of purchase all other evaluations have been completed, which have involved several other players as well. The importance of these players is crucial in deciding the relevant marketing mixes.

The teenager may purchase the bike alone, with friends or with family members. The housewife is likely to purchase the refrigerator from the retailer with her family, while the busy executive may shop alone or with friends or family. 6.2.6

User He is the actual user/consumer of the product. The user may or may not be the initiator. The product can be used by an individual, or

the product may be used by a group. The teenager and the housewife are the dominant users of the products that they have bought, but the products can be used by other members of the family as well.

Some points need to be noted in the decision making process for consumers:

z

One person may assume multiple roles in the decision making process. Depending on the product to be purchased, all the roles may be assumed by the same person. In case of low involvement products such as a pen this is likely to occur. In high involvement categories, there is a clear separation of buyer roles.

z

Roles differ according to the product type being bought. Women's role has been found to be stronger for household products. Respective roles may change according to product categories, and as purchasing process progresses. In a joint decision making process,

one or other partners will dominate in the early stages, then joint decision making occurs as the process moves towards final purchase. Joint decision making is more

94 Self-Instructional Material Consumer Behaviour NOTES common when a household consists of two earning members.

The same consumer assumes different roles depending on the product in question.

For instance, a child in the family plays multiple roles in purchasing clothes for himself, whereas he may have an insignificant role in the purchase of refrigerator for the family though he may exert strong influence on some decisions like choosing the color of the refrigerator.

Marketers have to understand the dynamics of group decision making. It is important to gauge who is the dominant influencer in the decision making process and what type of roles are played by various players.

In the refrigerator purchase, for instance, while the husband may be the payer and the wife the primary user, the child may play a part in deciding the brand or the color of the refrigerator to be bought. Families try to minimize disagreements by additional search for information, family discussions and delegation of responsibility to the most knowledgeable family member. z As roles change within households, so do purchasing activities. Teenagers play an important role in purchase of high technology products. Children influence decisions in most categories now. Their role is greater as influencers than as spenders themselves. z High involvement products usually involve more people in the decision making process as the risks associated with the purchase decision are higher. z Expert influence and emotional influences are used by members to sway other members. An identification of the roles played within the buying group is a prerequisite for targeting persuasive communications. The company should know the influencer and decider for the product. One should take note of changing roles and influences within the family. It is also important to identify the criteria used by the influencer and the decider to make the decision. The features and functions that are an important part of the decision criteria will have to be exaggerated in the product and they have to feature prominently in the communications of the company. The way the buyer purchases should influence the distribution strategy of the company. The company should make buying easy and convenient for the buyer so that the buyer endorses the choice of the decider enthusiastically. 6.3 THE BUYING PROCESS Need Recognition/ Problem awareness Information Search Evaluation of Alternatives Purchase

FIGURE 6.1 Buying Process Post-purchage Evaluation of Decision

The

buying process is divided into various stages –

Need recognition, Information search, Evaluation of alternatives, Purchase and Post-purchase

evaluation

of decisions. 6.3.1 Problem Recognition The decision making process begins with the recognition that a problem exists. z The problem may be functional like a slow computer or a small house. The marketer will have to communicate the new level of function or benefit of the product in an exaggerated way so that the customer feels at a disadvantage owning the current product. The marketer will also have to emphasize the importance of the function so that the

Check Your Progress 1. What is the role of the decider in the buying process? 2. What does the following statement mean? '

One person may assume multiple roles in the decision making process.'

customer feels uncomfortable not possessing the new product which can perform

the function. z The

recognition of the problem may take place over a period of time. For instance, the need for a larger house may be realized by a family over many years.

z The

problem recognition may occur as a result of routine depletion, for instance, petrol for the car, or other such regular requirements in a household. z Unpredictable problems, for instance, breakdown of car.

z The

problem recognition may be initiated by emotional or psychological needs, for instance, status. An individual may have several problems or needs at the same time. But he may not get around to solving all these needs at once. Consumers tend to prioritize needs. The degree to which the consumer intends to resolve the problem depends on several factors – for instance, the magnitude of discrepancy between desired and present situation, and the relative importance of the problem.

z The magnitude of discrepancy between desired and present situation is important. A problem may be perceived, but if the difference between the current and desired situation is small, the consumer may not be motivated to seek a solution for the problem. An innovative product with decisive advantage over the existing ones will have to be provided to make such a customer uncomfortable with his existing state and make him adopt a better method of satisfying his need. z Relative importance of the problem is important. A large discrepancy between the current and the desired situation may be perceived, but the relative importance of the problem may be small and the consumer will not proceed to seek a solution for the problem. The provider of the new solution will have to communicate the importance of the function itself. The customer has to be told that he is missing something important. z There may be need inhibitors which the consumer will have to overcome before he buys the product. A consumer may have realized the need for a car but he may be postponing the purchase because he does not know driving. The marketer will have to identify such inhibitors and try to eliminate them. Marketers must be aware of the needs of customers and the problems that they face. If needs are known accurately, competitive advantage can be created by designing solutions that serve those needs accurately. This may be accomplished through marketing research, but increasingly marketers have to see and study the context of use of the product and be able to identify the latent needs of the customer. Marketers should know that needs may arise because of stimulation. Advertisements and salespeople selling product benefits may act as cues to needs arousal. The advertisement should create awareness of large discrepancy and also stress on importance of owning the latest products. 6.3.2

Information Search The consumer, after recognizing the need for a product, searches for alternatives that may fulfill his needs, and evaluates these alternatives on the basis of various choice criteria. z The consumer first conducts an internal search. Internal search involves retrieving relevant information from his memory. Internal search involves retrieving information about similar purchase decisions made earlier by the consumer, or information about the product received from personal or non-personal sources that was stored in the memory for future usage. Such information includes decisions about choice criteria, brands included in the consideration set, information received from reference groups or advertisements related to the product etc.

 z

In case the internal search for information is found to be insufficient, the consumer goes in for external search. External sources involve information collection from personal sources such as family, friends, and non-personal or commercial sources such as advertisements, retailers and other media sources. z Third party reports may provide unbiased information to consumers about a company and its offerings. Retailers and media reports by independent agencies are therefore particularly credible sources of information for consumers.

z

Personal experience with the product is often unsubstitutable for evaluating the product. Consumers may seek limited trials of the product before buying, or may ask for demonstrations. z The objective of information search is to build up an awareness set, which is an array of brands that may provide a solution to the problem.

z An advertisement may not only stimulate search for more unbiased information regarding the advertised product but also may stimulate external information search about rival brands. 6.3.3 Evaluation of Alternatives and Purchase z
The awareness set has to be reduced to a smaller set of brands for serious consideration through screening. This smaller set is called the evolved set or the consideration set. z The screening process to narrow down the choice to a few brands may use different choice criteria from those used when making the final choice.
Consumers
use various types of rules while arriving at the set of possible brands that can be considered for purchase. z
Involvement
is the degree of perceived relevance and personal importance accompanying a particular purchase decision. In high involvement decisions, the consumer carries out extensive evaluations of the brands. High involvement purchases typically incur high expenditure or personal risks. The consumer spends more time and effort in arriving at the 'right' decision. The evaluation of choices is more stringent and the consumer uses many choice criteria on which to evaluate various brands.
z
Low involvement products incur less expenditure and personal risk, and hence, the consumer spends less time and effort in such decisions. In such purchases, simple and lesser evaluative criteria are used. Consumers use simple choice tactics to reduce time and effort in buying the product rather than maximize consequences of the purchase.
z
In high involvement products, consumers evaluate the consequences of the purchase and what others will think about it. The attributes that are weighed heavily will influence the decision more strongly. z Low involvement products are characterized by awareness, trial and repeat purchases.
The limited importance of the product does not warrant reasoned evaluation of alternatives. Awareness precedes trial, which if satisfactory, leads to repeat purchase. This behavior becomes habitual with little conscious thought or formation of attitudes preceding
purchase behavior. Awareness precedes behavior and behavior precedes attitude. Any of the brands of the evoked set may be considered adequate. Decision does not involve the consumer much, and he is likely to be satisfied with the product without much conscious deliberation about it.
z
In high involvement situations, marketers should provide a good deal of information as the customer will need such information to evaluate the brands that he is considering. High levels of repetition of communication may not be needed. Print media allows detailed and repeated scrutiny of information which is helpful when a customer is comparing brands. Communication should be able to focus on how the customers view the influence
Self-Instructional Material 97 Consumer Behaviour NOTES
of important others on the brand choice. Salespeople should ensure that the customer is aware of the important attributes of the product and also ensure that he correctly evaluates their consequences.
z
In low involvement purchase, attempting to gain top of the mind awareness through advertising and providing positive reinforcement like sales promotions to gain trial may be more important than providing information. The customer is not actively seeking information but is a passive receiver. So advertising messages should be short with small number of key points but with high repetition to enhance learning. TV may be the best medium since it allows passive reception of messages. 6.3.4 Purchase and Post-Purchase Evaluation of Decision Once the customer has zeroed in on the right choice, he purchases the product. The product can be purchased from retail stores, online, ordered by telephone or purchased directly from the company. The purchase process itself involves several more decisions. It involves decisions about the place and mode of purchase, payment terms and conditions, delivery of the product, installment, training for usage of the product etc. Marketers can study each of these processes to discover sources of competitive advantage. Marketers can either conduct these activities themselves, or they may employ intermediaries to perform these tasks. For instance, the goods may be delivered by the retailer while engineers of the company may install the products and train the customer. In case of high involvement products, the purchase process may itself take a long time. It may stretch from a few days to a few months or longer. The marketer has to take particular care of the customer during this crucial period in their relationship.

Consumers experience some post purchase concerns called cognitive dissonance, which arise due to uncertainly of making the right decision. This is because the choice of one product often means rejection of attractive features of the alternatives. Dissonance increases with expense of the purchase, difficulty of decision (many alternatives, many choice criteria and each alternative offering benefits not available with others), other risks involved in the purchase (functional, psychological or social risk) and when decision is irrevocable shortly after purchase. Car buyers will look at ads and brochures of their models and seek reassurance from owners of the same model. Car dealers can reduce buyer remorse by contacting recent purchasers by letters to reinforce the wisdom of their decision and to confirm the quality of their after sales service. 6.4 THE BUYING SITUATION 6.4.1 Extended Problem Solving z The customer spends a huge amount of time and effort in the decision making process. Extended problem solving involves high degree of information search, close examination of alternative solutions using many choice criteria. It is important to make the right choice since cognitive dissonance is very high if the correct decision is not made. z Three conditions primarily characterize extended problem solving situation. Alternatives are differentiated and numerous, there is high involvement in the purchase situation i.e. purchase is personally relevant and important, and all alternatives may possess desirable features that others do not have. If alternatives are perceived as similar, then less time is required in assessment. z Involvement is likely to be high when the decision potentially affects one's self image. Conspicuous products are generally characterized by such social motivations. When social acceptance is dependent on making a correct choice, involvement is high. Check Your Progress 3. What are the different stages in the buying process? 4. What are the various decisions involved with the buying process?
98 Self-Instructional Material Consumer Behaviour NOTES z Involvement levels are high when the perceived risk of making a mistake is high. The perceived risk usually increases with price. z When the purchase is capable of providing a high degree of pleasure, involvement is high. Marketers can help in this buying situation by providing information-rich communications via advertising and sales force. The communications must be aimed at appropriate motivations of various target segments. 6.4.2 Limited Problem Solving The customer has some previous experience with the product and information search is mainly internal through memory. Certain amount of external search and evaluation like checking prices may take place before buying. Marketers have an opportunity to affect purchase by stimulating the need to conduct search. Marketers can change the attitudes of consumers towards low involvement products by adding beliefs or changing their importance. 6.4.3 Habitual Problem Solving z Habitual problem solving is the behavior exhibited by the decision making unit when the unit buys the same product with little or no evaluation of alternatives. z The customer recalls the satisfaction gained by purchasing a brand and automatically buys it again. z Advertising keeps the brand name in the customer's mind and reinforces already existing favorable attitude towards it. 6.5 DETERMINANTS OF CONSUMER BEHAVIOUR 6.5.1 Internal Factors
Various factors influence the decision making process of a consumer. Some of these are internal factors, or personal influences that are individualistic in nature. These factors are not visible, though they influence the consumer to a great extent. Learning, perception, motivation, attitude, self-concept etc. are some such factors. The processes by which these factors influence consumers have to be examined and understood by the marketer by conducting appropriate research. The effect of these factors cannot be verbalized by the consumer, as he may not be able to realize their influence on him. For instance, motivation is one such factor about which traditional surveys reveal little, as the consumer is not able to tell the exact reasons for opting for a particular choice. Qualitative, exploratory research using alternative methods such as projective techniques, word completion tests are used to ascertain consumer motivations. 1. Perception Perception is the process by which a person
selects, organizes and interprets sensory stimulation to form a meaningful picture of the world.
It is
the process by which a consumer makes sense of the information that he receives. Selective attention Exposure is the first step in the process of perception. The consumer has to first come across the stimulus or be exposed to it, to interpret it. Attention is the next step in this process.
z Customers screen those stimuli that are not meaningful to them or they are not consistent with their experiences and beliefs. Consumers attend to only a small percentage of the communication to which they are exposed to. Check Your Progress 5. Define what habitual problem solving is. 6. In a given buying situation, when is customer/buyer involved likely to be high?

Self-Instructional Material 99 Consumer Behaviour NOTES z Customers pay more attention to stimuli that contrast with their background than to stimuli that blend with it. z Size, color, position and movement of the stimuli also affect attention. z Customers also notice those images that relate to their needs and those that provide surprises. Selective distortion Consumers process the information they have paid attention to. Consumers assign meanings to these stimuli while interpreting them. z Consumers distort information, attitudes and views. They may pretend that they misheard the message or they can discount the message source. Therefore, it is important to present the message clearly and use a highly credible source to minimize distortions. z Distortion can occur as people interpret the same information differently. For instance, a cheaper price may signify low quality to one consumer and value for money to another. z Framing is the way information is presented to people. Message should be positively reinforced. z Colors also influences interpretations. For instance, blue and green are considered to be cool colors and evoke feelings of security. Selective retention z Only a selection of messages are retained in the customer's memory. These messages are in line with the consumer's existing beliefs and attitudes. z Selective retention reduces cognitive dissonance. For instance, when reading reviews of a recently purchased car, only positive messages are remembered. z

The message about the product from the word of mouth and advertising must be consistent to prompt retention. Perception depends on the customer, the stimulus and the situation. z Thus, the same message can be perceived differently by different individuals. z The quality of the stimulus can be enhanced to improve the probability of exposure, attention and retention. Communication should be designed in a manner so as to enable distortion free perception.

z

The same consumer can perceive the same communication differently in varying circumstances. For instance, price off during festival can be interpreted as an event related discount, whereas price offs at other times can be judged as poor brand performance. Many phenomena related to consumers are driven by the process of perception – for instance, brand image, satisfaction, evaluation of brands and marketing communication. Consumers form perceptions related to several marketing variables such as price, attributes and their importance, country of origin of brands, corporate brands, salespeople etc. 2. Learning Learning is any change in the content or organization of long time memory and is a result of information processing. Perceptual processes lead to additions in memory, if the interpreted information is retained. The customer's memory acts as the internal information source in the decision making process. Classical conditioning Classical conditioning is the process of using an established relationship between a stimulus and response to cause the learning of the same response to a different stimulus. The repetitive

100

Self-Instructional Material Consumer Behaviour NOTES

appearance of the unconditioned and conditioned stimulus ensures that the removal of the unconditioned stimulus evokes the same response. In advertising,

humor which is known to elicit a pleasant response may be used in the belief that these favorable feelings will be associated to the product.

Use of heavy metal music when advertising a soft drink imbues the brand with youthfulness and strength connotations. The creation of brand personality involves using relationships that already generate a desired positive response from the intended target audience. Such images are combined with the brand to create the personality of the brand. The use of colors, symbols, country of origin images, music in creating brand image are associated with classical conditioning. The use of celebrity endorsements is also based on the belief that the positive image of the celebrity would rub off on the brand image. Operant conditioning Learning also occurs through operant conditioning. Operant conditioning is positive or negative reinforcement upon the performance of some behavior. Sales promotions such as the use of free samples, coupons, price offs are instances of operant conditioning. If the consumer likes the product, he may purchase it the next time, which is positive reinforcement. If he does not like it, he negatively reinforces this learning by not repeating the brand purchase or even spreading negative word about it. A

series of rewards may be used over time to encourage repeat buying of the product (coupons). Repeat purchase behaviour is shaped by application of repeat reinforcers so that consumers will have learnt that buying the product is associated with pleasurable experiences. However, the product or brand offered by the marketer should be its own reward. Artificial rewards offered over a period of time may make the customer expect such rewards for buying the brand. He may also

become conditioned to buy the product for the reward, and not for the intrinsic

rewards offered by the product. Repeat purchase behavior is shaped by application of repeat reinforcers so that consumers will have learnt that buying the product is associated with pleasurable experiences.

Cognitive learning Cognitive learning is the development of beliefs and attitudes without reinforcement. This type of learning primarily involves communication of benefits offered by a product to the intended target audience. The display of information and learning route is rational in nature. Rote learning is learning without conditioning in which companies repeat their messages that are primarily of a rational nature. Consumers are repeatedly exposed to such messages and thus learn about the company's offerings. Modeling/Vicarious learning Vicarious learning involves learning from others without direct experience or reward. This type of learning involves copying others or modeling oneself on observed behaviours in anticipation of certain rewards.

It is the promise of the reward which motivates in advertising. The ones who are copied may be product experts, admired for achievements, socially upmarket, or leaders with desirable values. The 'admiring glance' can be used to signal approval of the type of clothing being worn. Consumers may imagine that same may happen to them if they dress in a similar manner.

The desire to copy thus stems from the consumer's need to belong or seek affiliation, make correct decisions, uphold similar values, or one's aspirations in life that can be achieved by emulation. Reasoning

Reasoning involves high involvement situations. Some advertising rely on the recipient to draw their own conclusions. Self-Instructional Material 101 Consumer Behaviour NOTES Result of learning is the creation of product positioning. The objective is

to create a clear and favorable image or impression in the mind of the customer. The company has to ensure that customers continue to learn about its products through advertising, publicity, sales promotion, salespersons' visits, and through their own experience with the products. It is only through learning that the customers form perceptions about the company and its products. 3. Motivation The basic process of motivation involves needs that inspire actions to accomplish goals of fulfilling a need or reducing a drive. Maslow's theory of motivation Abraham Maslow gave one of the most popular theories of motivation. According to

the

Maslow's theory, an individual could have the following motivations – z Physiological needs: Hunger, Thirst z Safety needs: Accidents, Ill health z Belongingness and love

z Self-esteem and status z Self-actualization The motives determine choice criteria. For instance, a customer who is driven by esteem and status motive may use self image as a key choice criteria when buying

a car. Different consumers have varying motivations while buying the same product. Therefore, the choice criteria of various consumer segments differ, and marketers must choose the most relevant motivating factor while positioning their product. For instance, some consumers may buy food for satisfying hunger,

while

some may frequent a fast food joint to hang out with friends or family, others may enjoy gourmet food service provided by a leading luxury hotel. Each segment considers different motives while buying the same product. Therefore, while the segment that only wants to satisfy hunger may look for convenience or price, these factors may be inconsequential for the segment that wants gourmet food. 4. Belief and attitude Belief is thoughts about a product or a brand on one or more choice criteria. A consumer believes that Swatch offers international quality watch, or a particular hotel has good room service.

A belief is not factual, its a perception which may or may not be factually correct. Misconceptions about products can be harmful to the sale of brands. A consumer might think that a brand of durables is expensive because of the advertising imagery that it uses. He may not check the actual price of the brand at all. The company's aim should be to ward off the misconceptions about their brand.

An attitude is an overall favorable or unfavorable evaluation of a product. The consequence of a set of beliefs may be positive or negative attitudes towards the product.

They may be developed as a part of information search activities and/or result of product use. Attitudes play an important role in product design through the designer's efforts of matching product attributes to customer beliefs and attitudes. They also play an important role in persuasive communications from the company which tries to reinforce positive beliefs and attitudes, correct misconceptions and establish new beliefs. Customers' attitudes and beliefs impact pricing in the way that

the company tries to match price with customer's beliefs about what a good product should cost.

102

Self-Instructional Material Consumer Behaviour NOTES 5.

Personality Personality is the inner psychological characteristic of individuals that leads to consistent response to their environment. If marketers can identify the personality profile of the target market, advertising can show people of the same type using the product. Personality

types could be extremes such as Introvert-Extrovert, Sociable-Loner, Competitive-Cooperative etc. Brand personality is the characterization of brands as perceived by customers. Brands may be characterized as 'for young' like MTV or Levi's. By creating a brand personality, a marketer may appeal to those people who value that characterization.
Customers prefer the brands that either match their own personality or portray personalities that they aspire for. For instance, a laptop conveying efficiency and productivity could be identical to an executive's personality. Apparel brands conveying success and material wealth could be aspirational for young executives. 6. Lifestyle Lifestyle is the pattern of living as expressed in a person's activities, interests and opinions. Lifestyle analysis groups consumers according to their activities, values, and demographic characteristics such as education and income. Lifestyles have been found to correlate with purchasing behavior. A company may choose to target a particular lifestyle group with a particular product offering and use advertising which is in line with the values and beliefs of this group. 7. Life cycle
Disposable income, purchase and purchase requirements may vary according to life cycle stages. Not all people follow the classic family life cycle stages. Consumer's priorities regarding which products to buy, undergoes changes in different stages of the life cycle. His attitude towards life also changes.
A teenager is most bothered about his appearance, pleasing his peer group members and having fun in life, along with building a career. A middle aged career person who is recently married is bothered about securing the family's financial future, buying a house etc. Parents in a family with young children are most concerned about the future of the children and their comforts. In all these stages, a person's spending pattern varies. During teenage, food, entertainment and appearance would be main brackets where money is spent. Among newly married couples, spending on house and furnishings, car, household essentials may be the areas where money is spent, and for couples with children, their education, comforts is where the money goes. Therefore, in various stages of the family life cycle, priorities about where to spend money, changes. The attitudes also undergo changes, with teenage typically reflecting egocentrism and carefree nature, and a full nest family driven by responsibility and safety concerns. 6.5.2 External Factors
Besides the internal factors, external factors also influence consumer behavior. These factors are not individualistic, and are external to the individual. These factors include culture, subculture, social class, reference group and family influences.
These factors
are associated with the groups that the individual belongs to, and interacts with. 1. Culture Culture refers to the traditions, taboos, values and basic attitudes of the whole society within which an individual lives. Culture is essentially associated with a certain nationality or religious identity of an individual. Cultural norms are learnt by an individual from childhood, and their
Self-Instructional Material 103 Consumer Behaviour NOTES
influence is so ingrained that it is invisible in daily behaviors. Culture teaches an individual the acceptable norms of behaviour, and tells him the rights and wrongs. When an individual deviates from acceptable norms, certain sanctions are imposed on him. Cultural values affect how business is conducted. Culture also affects consumption behavior. Cultural influences can be seen in the food habits and dressing style of people. It also influences communication (language), attitudes and values that
influences
consumption patterns. For instance, attitude towards future security and prosperity affects the propensity to save and consume, and also affects decisions about possessions. In many Asian countries, having one's own house is one of the most important indicators of security (it is considered an investment), and lends social standing.
Cultural influences are highly conspicuous in communication messages. Use of colors, symbols, language and message sources reflect culture. Many brands associate their messages with a country's culture to adapt their messages. For instance, Honda, a Japanese brand communicates Indianness and its wide presence in India by using the brand logo in Mehindi (Henna, a local craft of painting one's hands), Chevrolet uses a popular Indian festival to indicate cultural adaptation, while some food brands such as Pillsbury use the mother serving hot food to her children and thus communicating her love (signifying the role of the mother in the Indian culture) to position their brand's superior product. The main aim of the multinational brands is to tune their messages according to the cultural specifications of various regions that they operate in. 2.

Social class Social class refers to the hierarchical arrangement of the society into various divisions, each of which signifies social status or standing. Social class is an important determinant of consumer behaviour as it affects consumption patterns, lifestyle, media patterns, activities and interests of consumers. Though there are various methods of ascertaining social class, most often it has been equated with income differences. However, this may not be true. Income differences do contribute to differences in social status, though they may not be the sole cause of differences in consumption patterns or lifestyles. For instance, two consumers earning the same income may differ considerably in lifestyle when one has professional qualification at the post graduate level and is employed at the senior management cadre of a multinational, while the other is self employed, with education confined to a few years of schooling. Preferences regarding product and brand purchases, media consumption patterns, interests in pursuit of various leisure time activities vary a lot among these two consumers. Such revelations through the years have prompted marketers to measure social class as a composite variable that reflects not just income differences, but other indicators such as educational qualifications, type of profession and designation, material possessions etc. Social class may fail to distinguish between contrasting consumption patterns though it remains an important discrimination of consumption patterns. Social class should be used with other measures such as life stage and life cycle. 3. Reference groups Reference groups are groups of people that influence an individual's attitude or behavior. Individuals use these groups as reference points for learning attitudes, beliefs and behaviors, and adapt these in their life. Family and close friends are considered to be primary reference groups in an individual's life due to their frequency of interaction with the individual and primacy of these significant others in an individual's life. Schoolmates, neighbourhood, colleagues, other acquaintances are a part of the secondary reference groups of an individual. An individual may or may not personally interact with others to imitate their behavior, and thus even those individuals or groups from whom an individual learns by mere observation are also part of his reference group.
104
Self-Instructional Material Consumer Behaviour NOTES
Reference groups influence product and brand purchases, particularly when the consumption is conspicuous in nature. Where a product is conspicuously consumed, the brand chosen may be influenced by what buyers perceive as acceptable to their reference groups. In case of conspicuous luxuries, even product consumption is influenced by reference groups. In case of inconspicuous products, reference group influence is lower, as there are little or no consequences (sanctions) for not buying the 'right' choices.

Among various members in a reference group, there are some who are referred to as opinion leaders. An opinion leader is someone in a reference group from whom other members seek guidance on a particular topic. They can exert enormous power on purchase decisions. They propagate word of mouth communication. Their credibility is higher, as they are part of the reference group, and do not have vested interests in selling the product to others, unlike marketers. Opinion leaders are product or category specific, and are characterized by high involvement level. It is extremely difficult to identify opinion leaders as they appear to be like other members of their group. They do not stand out, though their influencing power is stronger. Marketers can identify reference group members only by conducting appropriate research, which has to be product specific. Such research must include questions about the involvement levels of the respondent, level of knowledge, social standing in groups, inclination to adopt new products and ability to influence others. 6.6 CUSTOMER LOYALTY AND PROFITABILITY Relationship between loyalty and profitability of customers needs to be ascertained before planning which type of loyal customers are truly profitable for companies. All loyal customers should not be pursued or retained. The best customers are believed to be the loyal ones. The loyal customers are supposed to cost less to serve, they are willing to pay more than other customers and they act as word- of-mouth promoters for the company. It is believed that one sure way to earn greater profits is to win loyalty of customers. But when the loyal customers are studied for their profitability to the company, the picture is not as neat as has always been believed. z It is normally believed that loyal customers are cheaper to serve because the up-front cost of acquiring them are spread over a larger number of transactions. But this may not be true. Loyal customers may actually be more expensive to serve. In business markets such loyal customers do business in high volumes, know their value to the company and often exploit it to get premium service and price discounts. In some industries it may be cheaper to serve loyal customers but those industries will have to be identified before managers start engendering loyalty among its customers. z Long-term customers consistently pay less than the newer customers do. This is true for business markets as well as for consumer markets. This may happen because loyal customers are more knowledgeable about the product's quality and can develop accurate reference prices and can make better judgments about the value of the product or service than sporadic customers can. Loyal customers also believe that they deserve lower prices because companies profit from their buying consistently from them. z People who feel and talk positively about a company are also more likely to sell others on the company. Most companies measure loyalty purely on the basis of purchase behavior and do not conduct attitudinal surveys. Customers may keep buying from a company out of inertia and convenience but may not become advocates of the company. They will advocate a company only when they feel positively about it. And customers who are loyal in terms of their purchase behavior do not necessarily feel positively about the company. A company will have to be more useful and engaging with the customer to move him from being a loyal customer to becoming an advocate of the company. Check Your Progress 7. What is the significance of perception in consumer behavior? 8. Give suitable examples in support of the concept of classical conditioning. 9. List the various external factors that influence the decision-making process of a customer.

Self-Instructional Material 105 Consumer Behaviour NOTES z The most common way to sort customers is to score them according to how often they make purchases and how much they spend. The more items a customer purchases and more recent the transactions, the more important is the customer to the company, and the more the resources that the company lavishes on them. This method can result in a company targeting wrong customers for loyalty programs because customers buy with different periodicities and in different amounts each time they decide to buy. It is important to scrutinize customer transaction data carefully in terms of profits they generate for the company before companies settle on the customers that they will try to retain by offering incentives. z After analyzing customer profitability and projected duration of their relationships, it is time to categorize them and treat them differently. Customers who have no loyalty and bring in no profits should not attract any investments from the company. The strategy for customers who are profitable but disloyal is to milk them for the short time that they are buying from the company, but a soft approach is appropriate for profitable customers who are likely to be loyal. For highly loyal but not very profitable customers, the emphasis should be on making them spend more. z Profitable loyal customers are satisfied with existing arrangements and it is a bad idea to intensify the level of contact with them as they may be put off by more calls and mails. The company should concentrate on finding ways to engender positive feelings about the company among these customers. Depending upon the type of business it is in, the company can involve these customers in more activities of the company. A customer who feels and talks positively about the company is the most valuable customer of the company. z It is very difficult to convert profitable but transient customers into loyal ones by spending on them. These customers are deal-prone. The company should hard sell to them through promotions and mailing blitzes that should include special offers on other products. These customers should be contacted intensively and shortly after their latest purchase, and there should be a reminder call or mail after some time interval. If the customer does not respond, he should not be contacted again. z The customers whose size and volume of transactions are low can be of two types. If these customers do not have adequate spending power, they should be dropped. But if they can spend more, they should be pursued. The customers who can be potentially profitable should be offered other products. 6.7 EMOTIONAL ENGAGEMENT WITH CUSTOMERS A company should be able to connect emotionally with its customers. Showing care and concern for one's customers involves treating customers with dignity, trust and respect. This will be a source of competitive advantage. Most customers actually want to be loyal to the companies they buy their products and services from. Most customers prefer not to shop around for the best deals. They want to stick to their tried and tested companies. It is companies which alienate customers by making them faceless targets of their marketing machines. Standard reward programs exclusively offer monetary rewards for buying the company's products and services repeatedly. An airline would offer a free ticket for flying a certain number of miles. But by focusing exclusively on monetary gains and not engaging with the customers emotionally, companies are undermining customer loyalty. They encourage customers to defect when a better deal comes along. Following three practices will help companies in making their customers more loyal. z It is important to show that the company cares about customers who have been with the company for a long time Many customers are persuaded to buy a company's product

106 Self-Instructional Material Consumer Behaviour NOTES for a trial period by offering concessions. A customer would be lured to sign for a credit card by being offered a lower rate of interest than what is being charged to current card holders. But the long-term customer gets nothing for his loyalty to the company. Companies should change their emphasis from acquiring customers to retaining customers. A simple gesture like sending an anniversary card each time the customer completes one year of doing business with the company, with some monetary reward tucked into it, will make customers feel good about being associated with the company. Customers do not want to be bought, they want to be won over by emotional overtures of the company. z It is important to treat customers with dignity especially when they are faltering on some of their commitments. When a customer falls behind on payments, the rational thing to do is to send a tough letter telling him to pay up and gradually pressurizing him more and more. The company eventually may lose the customer but it is not too worried losing a problematic customer. But this practice may turn out to be short-sighted. Many otherwise good customers, who have had histories of making timely payments do falter for reasons outside their control. They may feel embarrassed and may be unsure about how to approach the company. The worst thing that a company can do is to assume that the these customers are no longer valuable. It is possible to connect with customers emotionally by giving them a graceful way to handle the problem. A credit card company can send greeting cards to customers who have fallen behind. It can suggest that they may have fallen upon bad times and can gently ask the customers to call the company so that their problem could be solved cooperatively. Those who call can receive credit counseling, and the credit card company can help in developing a payment plan. The company can recover most of the money which otherwise would have been written off. The key is to approach customers as human beings, easing their fears, and helping them get back on track. z A subtle way to earn loyalty is to show that the company trusts its customers. People like to feel that they are getting back something besides their money even in a business relationship. A company shows trust in its customers by soliciting referrals from them without being intrusive. And when a company checks with a current customer about the credibility of a potential customer, the current customer gets the feeling of being trusted. If a company makes it a policy to trust its customers, it will stumble upon many occasions when it can demonstrate its implicit trust in its customers. To be able to practice any of these principles of connecting with customers emotionally, the price and the product that the company is offering have to be at least on par with its competitors. But because today there is a great deal of parity among prices and products, a company’s ability to connect with its customers emotionally will be a competitive advantage. 6.8 CUSTOMER RELATIONSHIP MANAGEMENT Customer relationship management has to be focused on aligning the business processes with customer strategies employed by the firm. Customer relationship management (CRM) can be very useful if it works. It allows companies to gather customer data swiftly, identify the most valuable customers over time, and increase customer loyalty by providing customized products and services. It also reduces the cost of serving these customers and makes it easier to acquire similar customers. But a CRM can not only fail to deliver its intended benefits, it can also damage long-standing customer relationships. The biggest problem is the assumption that CRM is a software tool that will manage customer relationship of the company. CRM

is the bundling of customer strategy and processes supported by relevant software for the purpose of improving customer loyalty and in the

long term, the profitability of the company. It is important to get

Self-Instructional Material 107 Consumer Behaviour NOTES the concept and implementation of CRM right, as it is one initiative that most companies will be tempted to pursue sooner rather than later. z Create a customer strategy before implementing CRM – Customer relationship management is based on a rigorous segmentation analysis. It is designed to achieve specific marketing goals. CRM cannot be implemented without conducting segmentation analyses and determining marketing goals. Companies allow software vendors to drive their customer approach or they retrofit a customer strategy to match the CRM technology they have purchased. And they may make the fatal error of delegating customer relationship management to their chief information officers. It is important to have a strategy of customer acquisition and retention in place and see if a CRM software package would be helpful in implementing the strategy. z Before CRM technology is installed, a customer-focused organization has to be created. If a company wants to develop better relationships with its more profitable customers, it needs to have processes in place which will help meet customer needs in a superior way. CRM also affects the existing relationships in and among departmental, product, or geographic structures and these internal structures will have to be restructured to focus on the customers. It is important to simplify the customer interface and improve the old processes. So before CRM is rolled out, the company should have adopted customer centric philosophies, changed the structures and processes so that they are focused on customer needs and in general make the whole organization more sensitive to customer needs. z It is assumed that CRM has to be technology intensive. Objectives of CRM can be fulfilled without installing a high-tech solution, if a company has highly motivated employees who are aware of and sensitive to customer needs. Smart companies employ low-tech, mid-tech and high-tech solutions to implement their customer strategy. It may send a hand-written thank you notes to customers after they have used their service, it may install a system to answer customer queries, and it may design products that will repair themselves. A company should start by adopting the lower-tech alternatives first and gradually use more sophisticated technologies. Individual software solutions should be so sequenced that each step reinforces the next. A company should be doing whatever it will take to strengthen relationships with customers – with or without technology. z In their fervent quest to build relationships with their customers, companies end up building relationships with the wrong customers or build relationships with the right customers the wrong way. It is wrong to try to build relationships with all the existing and potential customers. A company may want to build relationship with affluent customers, but these customers may not want to build relationships with the company, and any effort to pursue them will alienate them further. It is important to tailor the communication method and the type of relationship to each customer that the company wants to pursue. Companies have made many mistakes in implementation of CRM. They did not research what customers wanted and only focused on the processes they could perform faster. They assumed that the initiative did not require top-management involvement and cross functional coordination and that it could handled by IT managers. They believed that the software would sell itself to employees and would automatically cause the organizational change required. If companies can avoid these pitfalls, implementation of CRM can be profitable for the company as well as its customers.

108 Self-Instructional Material Consumer Behaviour NOTES 6.9 RELATIONSHIP MARKETING One-to-one marketing involves gearing the organization to deal with valuable customers on an individual basis. This is not unattainable, but the effort should be worth the benefits that accrue. One-to-one or relationship marketing means being able and willing to change one's behavior towards individual customer based on what the customer tells the company and what else the company knows about that customer. The mechanics of one-to-one marketing are complex. It is one thing to train the sales staff to be warm and attentive, and quite another to identify, track, and interact with an individual customer and then reconfigure product or service to meet that customer's needs. Relationship marketing is grounded in the idea of establishing a learning relationship with each customer, starting with the most valuable ones. The company gets smarter with each interaction with the customer and becomes more valuable to him. The customer tells the company of some need and the company customizes its product to meet it. Every interaction and modification improves the company's ability to fit the product to this particular customer. Eventually, even if a competitor offers the same type of customization and interaction, the customer will not be able to enjoy the same level of confidence without taking the time to teach the competitor the lessons the company has already learned. There are four important steps for implementing one-to-one marketing. z Identifying the customers – The company must be able to locate and contact a fair number of its customers directly, or at least a substantial portion of its most valuable customers. It is critical to know customers in as much detail as possible. The information should contain not only names and addressable characteristics but their habits, preferences etc. A snapshot information is not enough. The company should be able to recognize the customer at every contact point, in every medium used, at every location and within every division of the company. z Differentiating the customers – Customers are different in two ways. They represent different levels of value to the company and they have different needs. Once each customer's needs and value are found out, it is possible to tailor the company's behaviour to each customer in order to reflect the customer's value and needs. z Interacting with customers – It is important to be both cost-efficient and effective when the company is interacting with its customers. Cost-efficiency improves by directing customer interaction towards more automated channels. Providing information on its website would be more economical than supporting a call center. Effectiveness improves by generating timely, relevant information which provides either better insight into a customer's needs or a more accurate picture of customer's value to the company. Every interaction with a customer should take place in the context of all previous interactions with that customer. A conversation should pick up where the last one was left, whether the previous interaction occurred last night or last month, at the call center or on the company's web site. z Customizing the company's behaviour – Ultimately, to lock a customer into a learning relationship, a company must be able to adapt some aspect of its behavior to meet that customer's individually expressed needs. This might mean mass-customizing a manufactured product, or it could involve tailoring some aspect of the service surrounding a product – perhaps the way the invoice is made or how the product is packaged. The production or service-delivery end of the business should be able to treat a particular customer differently based on what was learned about that customer by the sales, marketing, or any other department. It is tempting for a company to overlook this critical step, as it involves investment to make the operations of the company flexible and

Self-Instructional Material 109 Consumer Behaviour NOTES responsive. But one-to-one marketing will not cut much ice with customers, if the activities and processes of the company cannot be customized to each customer. Managers are tempted to dismiss one-to-one marketing as unattainable. Maintaining a customer database, having one system communicate seamlessly with another, tracking each customer's contact with the company, making the operations responsive and flexible, and assigning responsibility for maintaining customer relationships across divisions can be daunting tasks. But the benefits emanating from successful implementation of relationship marketing should justify investment of time and money in the endeavour. One-to-one marketing increases cross-selling as customer's requirements are known more intimately, it reduces customer attrition as the company learns of increasingly more sophisticated and effective ways to serve the customer's evolving needs, it reduces transaction costs as the customer's requirements are known and can be promptly served, and it leads to higher level of customer satisfaction as the company's total offering is tailored to his needs much better. 6.10 SUMMARY In this unit, you learnt that: • The initiator is the person who starts the process of considering a purchase. He may either need the product or initiate the search for information about the purchase decision on his own or by involving others. For instance, an older man may act as an initiator for a motorcycle that he wants for

to buy for his son. • Influencers influence the buyer,

gather information and attempt to impose their choice criteria on the decision

maker/process. Influencers vary in the extent to which they can change or persuade players in the decision making process. •

Influencers may be a part of the reference group of the initiator, experts in the particular categories, retailers, or other such individuals from whom information is sought.

For the teenager, his friends, family members and retailers could act as influencers. • The

user is the actual consumer of the product and may or may not be the initiator. The product can be used by an individual, or
the product may be used by a group. For instance, the teenager is the dominant user of the product that he has bought, but the products can be used by other members of the family as well. •
Consumers tend to prioritize needs. The degree to which the consumer intends to resolve the problem depends on several factors – for instance, the magnitude of discrepancy between desired and present situation, and the relative importance of the problem. •
Marketers should know that needs may arise because of stimulation. Advertisements and salespeople selling product benefits may act as cues to needs arousal and create awareness of large discrepancy and also stress on importance of owning the latest products. •
Involvement is the degree of perceived relevance and personal importance accompanying a particular purchase decision. In high involvement decisions, the consumer carries out extensive evaluations of the brands. High involvement purchases typically incur high expenditure or personal risks. •
Once the customer has zeroed in on the right choice, he purchases the product. The product can be purchased from retail stores, online, ordered by telephone or purchased directly from the company. The purchase process itself involves several more decisions. •
Consumers experience some post purchase concerns called cognitive dissonance, which arise due to uncertainly of making the right decision. This is because the choice of one product often means rejection of attractive features of the alternatives. Check Your Progress 10. 'Long-term customers consistently pay less than the newer customers do.' Is this true? 11. Define what CRM is. 12. What is one-to-one marketing?
110 Self-Instructional Material Consumer Behaviour NOTES • The customer spends a huge amount of time and effort in the decision-making process. Extended problem solving involves high degree of information search, close examination of alternative solutions using many choice criteria. It is important to make the right choice since cognitive dissonance is very high if the correct decision is not made. • Various internal, or personal, factors, which are individualistic in nature, influence the decision-making process of a consumer.
These factors are not visible, though they influence the consumer to a great extent. Learning, perception, motivation, attitude, self- concept are some such factors. •
Many phenomena related to consumers are driven by the process of perception, for instance, brand image, satisfaction, evaluation of brands and marketing communication. Consumers form perceptions related to several marketing variables such as price, attributes and their importance, country of origin of
brand and so on. •
Operant conditioning is positive or negative reinforcement upon the performance of some behavior. Sales promotions such as the use of free samples, coupons, price offs are instances of operant conditioning. •
Vicarious learning involves learning from others without direct experience or reward. This type of learning involves copying others or modeling oneself on observed behaviours in anticipation of certain rewards.
The ones who are copied may be product experts or leaders with desirable values. •
According to Maslow's theory of motivation,
an individual could have the following motivations: physiological needs (hunger, thirst), safety needs (accidents, ill health), belongingness and love, self-esteem and status,
and self-actualization. •
Belief is thoughts about a product or a brand on one or more choice criteria. A consumer believes that Swatch offers international quality watch, or a particular hotel has good room service. •
Social class is an important determinant of consumer behaviour as it affects consumption patterns, lifestyle, media patterns, activities and interests of consumers.
However,
social class should be used with other measures, such as life stage and life cycle. •
Loyal customers are supposed to cost less to serve, they are willing to pay more than other customers and they act as word-of-mouth promoters for the company. It is believed that one sure way to earn greater profits is to win loyalty of customers. • Creating the right portfolio of customers involves selecting those customers whose spending patterns, i.e., the revenues they bring in and the probability of repeat purchase, fit in with the strategies of the company. • A company should be able to connect emotionally with its customers. Showing care and concern for one's customers involves treating customers with dignity, trust and respect. This will be a source of competitive advantage. • Most customers actually want to be loyal to the companies they buy their products and services from. Most customers prefer not to shop around for the best deals. They want to stick to their tried and tested companies. 6.11KEY TERMS • Buyer: It is a person or group who conducts the transaction, visits stores, makes payments and effects delivery. • Classical conditioning: It

is the process of using an established relationship between a stimulus and response to cause the learning of the same response to a different stimulus.

Self-Instructional Material 111 Consumer Behaviour NOTES • Extended problem solving: It is the process where there is a high degree of information search and close examination of alternative solutions using many choice criteria. • Influencer: It is a person or group that attempts to persuade others in the decision- making process to facilitate the buying to take place. • Involvement: It

is the degree of perceived relevance and personal importance accompanying a particular purchase decision. • Social class: It

refers to the hierarchical arrangement of the society into various divisions, each of which signifies social status or standing. 6.12

ANSWERS TO 'CHECK YOUR PROGRESS' 1.

The decider is the person who makes the ultimate choice regarding which product to buy. This may be the initiator or the payer or the user, depending on the dynamics of the decision-making process.

For instance, the teenager himself may be the decider, or the ultimate decision could be taken by the payer (and the teenager may have to compromise). 2. This statement means that

depending on the product to be purchased, all the roles may be assumed by the same person. In case of low involvement products, such as a pen, this is likely to occur. In high involvement categories, there is a clear separation of buyer roles. 3.

The buying process is divided into various stages and they are listed as follows: •

Need recognition • Information search • Evaluation of alternatives • Purchase • Post-purchase evaluation of decisions 4.

The various decisions involved with the buying process are

decisions about the place and mode of purchase, payment terms and conditions, delivery of the product, installment, training for usage of the product

and so on. 5. Habitual problem solving is the behavior exhibited by the decision making unit when the unit buys the same product with little or no evaluation of alternatives. 6. Customer/buyer Involvement is likely to be high in a buying situation when the decision potentially affects one's self-image. Conspicuous products and luxury goods are generally characterized by such social

motivations. 7.

Perception is the process by which a person

selects, organizes and interprets sensory stimulation to form a meaningful picture of the world.

It is

the process by which a consumer makes sense of the information that he receives. 8.

In advertising, humour, which is known to elicit a pleasant response, may be used in the belief that these favorable feelings will be associated to the product.

Use of heavy metal music when advertising a soft drink imbues the brand with youthfulness and strength connotations. 9. The

various external factors that influence the decision-making process of a customer are as follows: • Culture • Sub-culture

112 Self-Instructional Material Consumer Behaviour NOTES • Social class • Reference group • Family influence 10. This statement is true for business markets as well as for consumer markets. This may happen because loyal customers are more knowledgeable about the product's quality and can develop accurate reference prices and can make better judgments about the value of the product or service than sporadic customers can. 11. Customer relationship management (CRM) is a broadly recognized, widely implemented strategy for managing and nurturing a company's interactions with customers, clients and sales prospects. It involves using technology to organize, automate and synchronize business processes—principally sales activities, but also those for marketing, customer service, and technical support. 12. One-to-one, or relationship, marketing involves gearing the organization to deal with valuable customers on an individual basis. This form of marketing means being able and willing to change one's behavior towards individual customer based on what the customer tells the company and what else the company knows about that customer. Relationship marketing is grounded in the idea of establishing a learning relationship with each customer, starting with the most valuable. 6.13 QUESTIONS AND EXERCISES Short-Answer Questions 1. What is the role of an opinion leader in a buying chain? 2. List the importance of CRM in marketing management. 3. What are the various determinants of consumer behavior? 4. What role do reference groups play across product categories? Long-Answer Questions 1. Think of brands that use various principles of learning in their advertising? 2. What choice criteria did you use when buying a perfume? Did they change between drawing up a short list and making the final choice? 3. What decision-making process did you go through the last time you purchased an electronic item? At each stage – need recognition, information search, etc. – try to remember what you were thinking about and what activities took place? 4. Choose a recent purchase that included not only yourself but also other people in making the decision. What role(s) did you play in the buying centre? What roles did these other people play and how did they influence your choice? 6.14 FURTHER READING Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.
Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.
Porter, M. E. (1985), op. cit.
Self-Instructional Material 113 Segmentation and Targeting NOTES UNIT 7 SEGMENTATION AND TARGETING Structure 7.0 Introduction 7.1 Unit Objectives 7.2 Segmentation 7.2.1 Non-Segmented Markets 7.2.2 Purpose of Segmentation 7.3 Segmentation and Market Entry 7.3.1 Segmenting Consumer Markets 7.3.2 Segmenting Organizational Markets 7.4 Evaluating Market Segments and Target Market Selection 7.4.1 Market Attractiveness 7.4.2 Firm's Capability to Serve Segments 7.5 Target Marketing 7.5.1 Selection of a Target Market 7.5.2 Target Market Strategies 7.6 Target Market Strategies 7.6.1 Undifferentiated Marketing 7.6.2 Differentiated Marketing 7.6.3 Focus 7.6.4 Customized Marketing 7.7 Summary 7.8 Key Terms 7.9 Answers to 'Check Your Progress' 7.10 Questions and Exercises 7.11 Further Reading 7.0 INTRODUCTION Market segmentation is a concept in marketing, where a market segment is a sub-set of
a market made up of people or organizations sharing with one or more characteristics that cause them to demand similar product
and/or services based on qualities of those products such as price or function. In simple terms, market segmentation involves the splitting up of the market into smaller groups, such as on the basis of age, gender, price and interests. Targeting is the next step, in which after the market has been divided into segments, the marketer will select one or a series of segments and 'target' them as potential customers. Resources and effort will be targeted at the segment. In other words, target market or audience is a group of customers that the business has decided to aim its marketing efforts and ultimately its merchandise.
The target market and the marketing mix variables of product, place (distribution), promotion
and price are the major elements of a marketing mix strategy that determine the success of a product in the marketplace. In this unit, you will learn about segmentation and targeting in detail. 7.1 UNIT

OBJECTIVES After going through this unit, you will be able to: • Understand the concept of segmentation •

Analyse the
concept of segmentation with emphasis on market entry
114 Self-Instructional Material Segmentation and Targeting NOTES • Evaluate market segments and select target market • Know what target marketing is and its various strategies 7.2 SEGMENTATION
Segmentation refers to the process of identifying clusters of customers who desire the same value proposition. Customer value proposition is a unique mix of product and service attributes, customer relations, and corporate image that a company offers. Customer value proposition defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.

Segmentation is the process of dividing the market of a product or service
in smaller groups of customers. The customers in one group should (i) buy the product for the same purpose, or (ii) use the product in the same way, or (iii) buy the product in the same way. But customers in one segment should be different from customers of any other segment in one or more of the above parameters. Segmentation of a market makes sense only when the company has to design a separate value proposition for each segment. Sportspersons buy Nike shoes to enhance their performance, whereas the same shoes are used as casual shoes by some other people. People drive their cars in different ways. Some are 'rough' drivers, while others take it easy on the road. The same grocery items are bought both at neighborhood stores and at upscale stores. 7.2.1
Non-Segmented Markets Very few products or services can satisfy all customers in a market. Not all customers want to buy the same product. Companies in some countries like India have behaved as if there was just one common market and fed it with one offering for decades. A decade back, Ambassador and Fiat and later Maruti 800 were the only cars on the Indian roads. But now, Mercedes Benz is being run as a taxi for the super premium segment of the market. This indicates that marketers had been ignoring the potential for market segmentation for long. Now, a new car is launched in the Indian market once a month, sometimes even by the same company. Similar stories abound in most categories of goods in most developing countries. In fact, one of the reasons for the relative backwardness of these countries can be lack of thorough process of segmentation. Marketing not based on segmentation is essentially inefficient because some segments get over engineered, advanced products giving far more value and features are offered than desired by the customers, whereas other segments do not get the required value and features that customers want in the product. Nobody is happy in the process and the company ends up spending lot of money unnecessarily. Companies confuse segmentation, and market evolution and the state of the economy.
Whatever the state of the economy and market, distinct segments are always there in any market because segments are based on differences in society, and differences in society are more pronounced in developing countries. Any marketing endeavor has to start with the process of segmenting the market, else it will be ineffective (due to underserving the market) and inefficient (because of overserving the market). 7.2.2 Purpose of Segmentation Different product and service offerings must be made to the diverse groups that typically comprise a market. Segmentation involves identification of groups of individuals or organizations that have significant implications for determination of a marketing strategy. Segmentation is dividing a diverse market into a number of smaller, more similar sub-markets. The objective is to identify groups of customers with similar requirements so that they can be served effectively while being of a sufficient size for the product to be supplied efficiently.
Self-Instructional Material 115 Segmentation and Targeting NOTES
It is the basis by which marketers understand their markets and develop strategies for serving their chosen customers better than competition. Target market selection Segmentation provides the basis for selection of target markets. A target market is a chosen segment of market which a company has decided to serve. Customers in the target market have similar characteristics and a single marketing mix can be used to serve them. Creative segmentation may result in the identification of new segments that are not being served presently and may form attractive targets. Tailored marketing mix Segmentation allows grouping of customers based on similarities (similar benefits). Marketers are able to understand in depth the requirements of segments and tailor a marketing mix that meets their needs. Segmentation promotes the idea of customer satisfaction by viewing markets as diverse set of needs which must be understood and met by suppliers. Differentiation By breaking a market into its constituent segments, a company may differentiate its offerings between segments, and within each segment it can differentiate its offering from competition. By creating a differential advantage over the competition, a company gives the customer a reason to buy from them rather than from competitors. Opportunities and threats Markets are rarely static. As customers become more affluent, they seek new experiences and develop new values, and new segments emerge. The company may spot a new underserved market segment and meet its needs better than competition. Similarly the neglect of a market segment can pose a threat if competition uses it as a gateway to market entry. Market segments may need to be protected by existing competitors even though it may not be profitable to serve them. They do this because they fear that the market segments they vacate might be used by new entrants to establish a foothold in the market. 7.3 SEGMENTATION AND MARKET ENTRY Segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it. So instead of launching copycat products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. It can focus its energies on serving this segment. 7.3.1 Segmenting Consumer Markets Markets can be segmented in many ways. Segmentation variables are the criteria that are used for dividing a market into segments. The chosen criteria should be good predictors of differences in buyer behaviour. There are three broad groups of consumer segmentation criteria: Behavioural, Psychographic and Profile variables.
z Behavioral

variables such as benefits sought from the product, and buying patterns such as frequency and volume of purchase may be considered the fundamental basis. z Psychographic variables are used when purchasing behaviour is correlated with the personality or lifestyle of consumers. Consumers with different personalities or lifestyles have varying product preferences and may respond differently to marketing mix offerings.

Check Your Progress 1. What do you understand by customer value proposition? 2. What are the three broad groups of consumer segmentation criteria?

116 Self-Instructional Material Segmentation and Targeting NOTES Profiling is not essentially a criteria

for segmentation. After finding these differences, marketers need to describe the people who exhibit them. Profile variables such as socio- economic group or geographic locations are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. After tracing such people the marketer attempts to profile them in terms of their age, socio-economic groupings. The objective of profiling is to identify and locate the customers so that they can be approached by marketers. But in practice segmentation may not follow this logical sequence. Often profile variables will be identified first and then the segments so described will be examined to see if they show different behavioural responses. For instance, different age or income groups may be examined to see if they show different attitudes and requirements. Behavioural • Benefit sought • Purchase occasion • Purchase behaviour • Brand loyalty • Usage • Perception & beliefs Psychographic • Lifestyle • Personality Profile • Demograhy • Socio economic variables • Geography Basis for segmenting consumer markets Basis for Segmenting Consumer Markets

Behavioural segmentation Benefits sought: People may seek different benefits from a product. Benefits sought in the fruit drink market are extra energy, vitamins, being natural, low calories, low price. There are brands targeting each segment. Benefit segmentation provides an understanding on why people buy in a market and aids in identification of opportunities, as some of the benefits that customers seek may not be provided by the existing companies. Benefit segmentation is fundamental because the objective of marketing is to provide customers with benefits which they value. Profile analysis can then be performed to identify types of people (age, gender) in each benefit segment so that targeting becomes easier. Purchase occasion: Products like tires may be purchased as a result of an emergency or as a routine unpressurized buy. Price sensivity is likely to be lower when products are bought in emergency situations. Some products may be bought as gifts or self purchases. Gift markets are concentrated at festivals period, while the advertising budget for these will be concentrated in the pre-festival period. Package designs may differ during this period, and special offers may also be made. Purchase behaviour: Differences in purchase behavior can be based on the time of purchase relative to the launch of the product or on patterns of purchase. When a new product is launched, a key task is to identify the innovator segment of the market. These people allow

Self-Instructional Material 117 Segmentation and Targeting NOTES communication to be specifically targeted at them. Innovators are more likely to be willing to buy products soon after launch. Other segments of the market may need more time to assess the benefits and delay purchase until after the innovators have taken the early risks of purchase. Brand loyalty: The degree of brand loyalty can be the basis for segmenting customers. Some buyers are totally brand loyal, buying only one brand in a product group. Most buyers switch brands. Some may buy one particular brand on most occasions but also buy two or three other brands. Others might show no loyalty to any individual brand but switch brands on the basis of special offers to buy, because they are variety seekers who look to buy a different brand each time. By profiling the characteristics of each group a company can target each segment accordingly. By knowing the type of person (for instance, by age, socio- economic group) who is brand loyal, a company can channel persuasive appeals to defend this segment. By knowing the characteristics and shopping habits of offer seekers, sales promotions can be correctly targeted. In consumer durables market, customers can be divided into first time buyers, replacement buyers and switchers from other brands. Usage: Consumers can be segmented on the basis of heavy users, light users and non- users of a product category. Profiling of heavy users allow this group to receive most marketing attention because creating brand loyalty among these people will pay heavy dividends. Attacking the heavy user segment (20% customers consuming 80% of the product) can have drawbacks if all competitors are following this strategy. Analyzing the light and non-user category provides insights that permit development of appeals that are not mimicked by competition as they will be concentrating on the heavy users. Perception and beliefs: Perceptions and beliefs are strongly linked to behavior. Consumers are grouped by identifying theses people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For instance, when it was launched, a product such as iPOD by Apple made more sense to consumers who were passionate about music and also held extremely positive perceptions about the use of technology. In the early 90s several Indian consumers held negative perceptions about microwaves. It was believed that Indian food rich in oil and spices cannot be cooked in microwaves, and the waves emanating inside were harmful to health. Another segment that was more open to adapting microwaves consisted of those consumers who were well aware about the functioning of the microwave, and were health conscious. They also sought convenience of cooking faster, and cooking other types of cuisines. For these purposes, a microwave was found to be suitable by them. Therefore, marketers initially focused on the second segment. Psychographic segmentation

Lifestyle: A company groups people according to their way of living as reflected in their activities, interests and opinions. The company identifies groups of people with similar patterns of living. The question that arises in this type of segmentation is whether general lifestyle patterns are predictive of purchasing behavior in specific markets. The company will relate a brand to a particular lifestyle. Personality: In some product categories there is relationship between brand personality and the personality of the buyer. Buyer and brand personalities are likely to match where brand choice is a direct manifestation of personal values, but for most FMCG goods, people buy a repertoire of goods. Personality and lifestyle segmentation will work best when brand choice is a reflection of self expression i.e. the brand becomes a badge which makes public an aspect of personality. Successful personality based segmentation is found in categories such as cosmetics, alcoholic drinks and cigarettes.

118

Self-Instructional Material Segmentation and Targeting NOTES

Profile segmentation Even if behavior and/or psychographic segmentation has distinguished between buyer preferences, there is need to analyze the resulting segments in terms of profile variables such as age and socio economic groups. The segments emerging from behavioral and psychographic segmentation will have to be profiled in terms of age, occupation, socio- economic status, place of residence, gender etc. Profiling will help companies in identifying the segments and focusing their attention on them. Demographic variables z Age - Age is used to segment many consumer markets, like food and clothing. z Gender - Differing tastes and customs between men and women are reflected in specialist products aimed at these market segments. z Life cycle - Disposable income and purchase requirement vary according to life cycle stage (young singles versus married). Young couples without children may be a prime target for consumer durables. The use of life cycle analysis gives a better precision in segmenting markets than age because family responsibilities and presence of children have a greater bearing on what people buy than age. Socio-economic variables: Social class as a predictor of buyer behavior has been open to question. Many people who hold similar occupation have dissimilar lifestyles and purchasing patterns. Educational qualification and income are also used as variables for segmentation. Geographic variables: A marketer can use pure geographic segmentation or a hybrid of geographic and demographic variables to segment the market. Geographic segmentation is useful when there are geographic locational differences in consumption patterns and preferences. Variations in food preferences may form the basis of geographic segmentation. Both

the

geographic and demographic variables help a marketer to point to their segments more precisely. Combining segmentation variables Often a combination of variables will be used to identify groups of consumers that respond in the same way to marketing mix strategies. For instance,
life cycle,
occupation and income can be combined. Flexibility and creativity are hallmarks of effective segmentation analysis. 7.3.2 Segmenting Organizational Markets Organizational markets can be segmented on the basis of various factors, that can be broadly classified into
macrosegmentation and microsegmentation . Macrosegmentation
focuses on characteristics of the buying organization such as company size, industry and geographic location. Microsegmentation is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision making such as choice criteria, decision making unit structure, decision making process, buy class, purchasing organization and organizational innovativeness.
First macro and then micro basis of segmentation are employed while segmenting organizational markets.
Macrosegmentation
Organizational size: Large organizations have greater order potential, more formalized buying process, increased specialization of functions and special needs (more services and
Self-Instructional Material 119 Segmentation and Targeting NOTES
quantity discounts). They are important target market segments and require tailored marketing mix strategies. Dedicated sales teams are used to service important industrial accounts. List price should take into account the inevitable demand for volume discounts. Sales team should be well versed in the art of negotiation. Industry: Different industries have unique requirements of products. Computer suppliers can market their product to various sectors such as banking, manufacturing, healthcare, and education, each of which has unique needs in terms of software programs, price and purchasing practice. By understanding each industry’s needs in depth, a more effective marketing mix can be designed. Geographical segmentation: There are regional variations in purchasing practice and needs.
Microsegmentation
Choice criteria: One customer may rate price as the key choice criteria, another may favor productivity of the equipment being sold and a third may want more services. Marketing strategies need to be adapted to cater to each segment’s needs. Three different marketing mixes would be needed to cover the three segments and salespersons would have to stress different benefits when talking to customers in each segment. Key choice criteria is a powerful predictor of buyer behaviour. Decision making unit structure: Members of the DMU and its size vary among firms. DMU consists of all people in a buying organization who
have an effect on
supplier choice. In one segment top management may make the decision, in another engineers may play a role, and in yet another purchasers may play a role. The selling approach that a company will adopt will depend heavily on the priorities of the members of the DMU. Decision making process: Decision making process can take a long time or be relatively short in duration depending on size of the DMU. Large DMUs will take a longer time. Where the decision time is long, high levels of marketing expenditure is needed with considerable effort being placed on personal selling. Much less effort is needed when buying process is short and where, say, only the purchaser is involved. Buy class: Organizational purchases are categorized into straight rebuy, modified rebuy and new task. Buy class affects the length of decision making process, complexity of DMU and number of choice criteria which are used in supplier selection. It can therefore be used as a predictor of different forms of buyer behavior. When a company is buying an item for the first time, it will prefer suppliers who will have the patience to educate the buyer company. It will also be suspicious of sellers as it does not really know the credibility of the sellers. The sellers will have to demonstrate lot of patience as the buyer will evaluate lot of options and get into lot of consultation before settling on a supplier (New task). When the company is already buying the item but only wants to alter the specifications of the product or the conditions of purchase, it will expect the incumbent supplier to make the required changes and retain the order. New suppliers can make a pitch but they have to compete hard against the incumbent supplier because of its proximity to the buyer (Modified rebuy). The incumbent supplier should get the order when the buyer continues to buy the same item in the same way. New suppliers can make a pitch but they have to prove that they are decisively better than the incumbent (Straight rebuy). Purchasing organization: Decentralized versus centralized purchasing is an important variable due to its influence on the purchase decision. Centralized purchasing is associated with purchasing specialists who become experts in buying a product or range of products. They are more familiar with cost factors, and strengths and weaknesses of suppliers than decentralized generalists. The opportunity for volume buying means that their power base to demand price concessions from suppliers is enhanced. In centralized purchasing systems, purchasing specialists have greater power within the DMU with respect to technical people like engineers.
120

Self-Instructional Material Segmentation and Targeting NOTES
In decentralized purchasing, users and technical personnel have lot of influence and it is important to understand their requirements. A purchaser may ultimately negotiate the price and place the order, but the choice of the user and technical person is respected by the purchaser. Centralized purchasing segment could be served by a national account team whereas decentralized purchasing segment might be covered by territory representatives. Organizational innovativeness: Marketers need to identify the specific characteristics of the innovator segment since these are companies that should be targeted first when new products are launched. Follower firms buy the product but only after innovators have approved it. 7.4 EVALUATING MARKET SEGMENTS AND TARGET MARKET SELECTION Segmentation is a means to target marketing. Target marketing is the choice of specific segments to serve. A firm needs to evaluate the segments and decide which ones to serve. In evaluating market segments which can be targeted, a company should examine two broad issues: (i) Relative attractiveness of the market segments (ii) Company's capability to compete in various segments. 7.4.1 Market Attractiveness Following factors should be evaluated in finding out whether a particular market segment is worth pursuing. Market factors z Segment size Large-sized segments are
more attractive than small ones since sales potential are greater and the chance of achieving economies of scale gets improved.
But large segments are highly competitive since other companies are also targeting these bigger segments. Smaller companies may not have the resources to compete in large segments and so may find smaller segments more attractive. z Segment growth rate Growing segments are usually more attractive than stagnant or declining segments as new business opportunities will be greater in growing markets. But growth markets have heavy competition. Such markets need commitment of enormous resources in production and marketing as new capacities have to be created to serve the growing number of customers and the company has to reach the customers through various promotional means and distribution channels. Analysis of growth rate should be accompanied with an examination of state of competition and amount of investment needed. z Price sensitivity In segments where customers are price sensitive there is danger of profit margins being eroded by price competition. Low price sensitive segments are more attractive since margins can be maintained. Competition may be based more on quality and other non- price factors in segments where customers are less price sensitive. z Bargaining power of customers Both end and intermediate customers like retailers can reduce the attractiveness of a market segment if they can exert high bargaining pressure on suppliers. It results in
Check Your Progress 3. How can segmentation be used to enter new markets? 4. How are perceptions and beliefs linked to behavior? 5. What do you understand by microsegmentation?
Self-Instructional Material 121 Segmentation and Targeting NOTES
reduction of profit margins as customers negotiate lower prices in return for placing large orders, or under threat of switching suppliers. Bargaining of customers is higher when the number of customers are few but each of them have large buying capacity, when the number of suppliers are more, and the product sold by all of them is standard, when the customers can develop the capability to make the item provided by the seller, and when the product being sold is not a very important for the buyer. z Bargaining power of suppliers Where the supply is in the hands of a few dominant companies, the segment will be less attractive than when served by a large number of competing suppliers. z Barriers to market segment entry Entry barriers reduce attractiveness. Barriers take the form of high marketing expenditures required to compete, patents, or high switching costs for customers. If a company judges that it can afford to overcome barriers to entry, the segment will be attractive as other new entrants may find the entry barrier daunting. z Barriers to market segment exi A segment is less attractive if there are high barriers to exit. High barriers to exit compels competitors to stay in the market which makes the rivalry among competitors very intense. Exit barriers may take the form of specialized production facilities that cannot be easily liquidated or agreements to provide spare parts to customers. Competitive factors z Nature of competition Segments that are characterized by strong aggressive competition are less attractive than where competition is weak. The quality of competition is more significant than the number of companies operating in a market segment. Depending on the nature of industry quality of competitors would be related to their size, financial strength, innovativeness, technical capability, production facilities, brand equity etc. z New entrants A judgement must be made regarding the likelihood of new entrants, possibly with new technology which might change the rules of the competitive game. If it is anticipated that strong players will enter the market, it is best to stay away from such a market. z Competitive differentiation Segments will be attractive if there is real probability of creating a differentiated offering that customers value. Howsoever intensely competitive
the
market may be, it is always possible to differentiate one's offerings and win a share of such markets. This is dependent upon the company identifying unserved customer requirements and having the capability to meet these requirements. Political, social and environmental factors z Political issues Political forces can open up new market segments (deregulation of the Indian economy). Attraction of entering new geographic segments may be reduced if political instability exists or is forecast. Governments may encourage or discourage entry of foreign companies in their markets.

Social trends Changes in society can give rise to latent market segments underserved by current products and services. Increasing proportion of working women have increased the market for pre-cooked, packaged food. Big gains can be made by first entrants. z Environmental issues The trend towards more environmentally friendly products has affected market attractiveness both positively and negatively. Companies which are damaging the environment are facing pressures from interest groups and they have to invest in new technologies, equipments and processes to make their operations more environment friendly. Such investments will affect the cost structure of these companies adversely. On the other hand, there are huge opportunities for companies to produce environment friendly products which are likely to fetch higher prices from environment sensitive customers. There are also opportunities to innovate new equipments and processes which other companies can use to make their operations more environment friendly. 7.4.2 Firm's Capability to Serve Segments A market segment may be attractive, but it may be beyond the resources and competencies of the company to serve it profitably. A company needs to carry out an audit of its resources and competencies and match them with the resources and competencies that will be required to serve the target segment. Howsoever attractive a segment may look to be, a company should not venture to serve it unless it is certain that it has the required resources and competencies. Exploitable marketing assets The target market segment should allow the firm to exploit its current technological, manufacturing, and marketing strengths.
The
segment entry should be consonant with the image of its brands and it should provide distribution synergies. Where new segment entry is inconsistent with its current image, a new brand name may be created. Cost advantage Companies which can exploit cheaper material, labour or technological cost advantages to achieve a low cost position compared to competition will be in a strong position particularly if the segment is price sensitive. Technological edge Superior technology may be a source of differential advantage in the market segment. If the company has patent protection it can form the basis of a strong entry. If the company possesses resources it can invest in building technological leadership. Managerial capabilities and commitment The technological capabilities of the company and its superior products may be insufficient to compete against strong competitors. Segment needs to be assessed from the viewpoint of managerial skills that will be required to develop and maintain the marketing mix. 7.5
TARGET MARKETING 7.5.1 Selection of a Target Market
A target market is a group of people or organizations for which a company designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. Selection of target markets is a three step process.
Check Your Progress 6. What are the two issues that must be tackled by a company while evaluating target market segments? 7. How is price sensitivity related to market attractiveness?
 (i)
The requirements and characteristics of the individuals that comprise the market are understood. Marketing research helps in this process. (ii) Customers are grouped according to
these
requirements and characteristics into segments. A given market can be segmented in various segments. A given market can also be segmented in various ways depending on the choice criteria. There is no single, prescribed way of segmenting a market. A car market can be broken down according to the type of buyer (individual/organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/family with children). There are no rules
which lay down
how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity. The selection of the criteria on which the market will be segmented is the most important decision that the company will have to make. The criteria should be able bring out meaningful differences among customers which the company can exploit by designing a unique value proposition. Using
a
new criteria or using a combination of well known criteria in a novel way may give fresh insights into a market. Marketers should visualize markets from fresh perspective. They may be able to locate attractive, under-exploited market segments. (iii) Finally, one or more markets are chosen for targeting or serving. Marketing mix is developed by keeping in mind what the customers value. The aim is to design a mix which is distinctive from that which the competition is offering. 7.5.2 Target Market Strategies When selecting their target markets, companies have to make a choice
of

whether they are going to be focused on one or few segments or they are going to cater to the mass market. The choice that companies make at this stage will determine their marketing mix and positioning plank. Undifferentiated targeting A company using an undifferentiated targeting strategy essentially adopts a mass-market philosophy. It views the market as one big market with no individual segments. The company uses one marketing mix for the entire market. The company assumes that individual customers have similar needs that can be met with a common marketing mix. The first company in an industry normally uses an undifferentiated targeting strategy. There is no competition at this stage and the company does not feel the need to tailor marketing mixes to the needs of market segments. Since there is no alternate offering, customers have to buy the pioneer's product. Ford's Model T is a classical example of an undifferentiated targeting strategy. Companies marketing commodity products like sugar also follow this strategy. Companies following undifferentiated targeting strategies save on production and marketing costs. Since only one product is produced, the company achieves economies of mass production. Marketing costs are also lower because only one product has to be promoted and there is a single channel of distribution. But undifferentiated targeting strategy is hardly ever a well considered strategy. Companies adopting this strategy have either been blissfully ignorant about differences among customers or
have been
arrogant enough to believe that their product will live up to the expectations of all customers, till focused competitors invade the market with more appropriate products for different segments. Therefore companies following this strategy will be susceptible to incursions from competitors who design their marketing mixes specifically for smaller segments.
124
Self-Instructional Material Segmentation and Targeting NOTES
Concentrated targeting A company selects one segment to serve. It understands the needs, and motives of the segment's customers and designs a specialized marketing mix. Companies have discovered that concentrating resources and meeting the needs of a narrowly defined market segment is more profitable than spreading resources over several different segments. Starbucks became successful by focusing exclusively on customers who wanted gourmet coffee products. Companies following concentrated targeting strategies are obviously putting all their eggs in one basket. If their chosen segment were to become unprofitable or shrink in size, the companies will be in problem. Such companies also face problems when they want to move to some other segments, especially when they have been serving a segment for a long time. They become so strongly associated with serving a segment with a particular type of product or service, that the customers of other segments find it very difficult to associate with them. They believe that the company can serve only that particular segment. Companies which start with concentrated targeting strategy but nurse ambitions to serve more segments should make early and periodic forays into other segments. The idea is to avoid being labeled as the
company which exclusively serves a particular segment. The association with one particular segment should not be allowed to become so strong that customers cannot imagine the company doing something else. From the car makers' perspective, Mercedes offers premium cars for the upper segment of the market only. It does not offer cars for the middle and lower segments. But Mercedes segments the premium segment for its own purpose and offers different cars for its different premium segments. Multi-segment targeting A company following multi-segment targeting strategy serves two or more well-defined segments and develops a distinct marketing mix for each one of them. Separate brands are developed to serve each of the segments by most companies following this strategy. It is the most sought after target market strategy because the strategy has the potential to generate sales volume, higher profits, larger market share, and economies of scale in manufacturing and marketing. But the strategy involves greater product design, production, promotion, inventory, marketing research, and management costs. Another potential cost is cannibalization, which occurs when sales of a new product cut into sales of a firm's existing products.
Before deciding to use this strategy, a company should compare the benefits and costs of multi-segment targeting to those of undifferentiated and concentrated targeting. The car market is most clearly segmented. There are segments for small cars, luxury cars, sports utility vehicles, etc. Most car makers like General Motors, Ford, Toyota, Honda, and others offer cars for all the segments. Though Toyota entered the US market with small cars, it eventually chose to operate in most of the segments. 7.6

TARGET MARKET STRATEGIES The purpose of evaluating market segments is to choose one or more segments to enter. Target market selection is the choice of which and how many market segments the company will compete in. There are four generic target marketing strategies. 7.6.1 Undifferentiated Marketing There may be no strong differences in customer characteristics. Alternatively, the cost of developing a separate marketing mix for separate segments may outweigh the potential gains of meeting customer needs more exactly. Under these circumstances a company will decide to develop a single marketing mix for the whole market. There is absence of segmentation. This strategy can occur by default. Companies which lack a marketing orientation may Check Your Progress 13. What are the parameters on the basis of which the company should evaluate the attractiveness of a market segment? 14. On what basis should the company decide its capabilities to serve market segments?
Self-Instructional Material 125 Segmentation and Targeting NOTES practice this strategy because of lack of customer knowledge. It is convenient since a single product has to be developed. Finding out that customers have diverse needs that can only be met by products with different characteristics means that managers have to develop new products, design new promotional campaigns and develop new distribution channels. Moving into new segments means that salespeople have to start prospecting for new customers. 7.6.2 Differentiated Marketing When market segmentation reveals several potential target segments that the company can serve profitably, specific marketing mixes can be developed to appeal to all or some of the segments. A differentiated marketing strategy exploits the differences between marketing segments by designing a specific marketing mix for each segment. Specific marketing mixes would be developed to target cross border segments of consumers and organizations and reap high profits through customer satisfaction and economies of scale. One potential disadvantage of differential marketing strategy is loss of cost economics. 7.6.3 Focus Several segments may be identified but a company may not serve all of them. Some may be unattractive or be out of line with the company's business strengths. A company may target just one segment with a single marketing mix. The strategy is suited for companies with limited resources as these resources may be too stretched if it competes in many segments. Focused marketing allows R&D expenditure to be concentrated on meeting needs of one set of customers and managerial activities is devoted to understanding and catering to their needs. Large organizations may not be interested in serving the needs of this one segment or their energies may be so dissipated across the whole market that they pay insufficient attention to the requirements of this small segment. One danger that such niche marketers face is attracting competition from larger organizations in the industry if they are very successful. One form of focused marketing is to concentrate efforts on the relatively small percentage of customers that account for a disproportionately large share of sales of a product (heavy users). In some markets, 20% of customers account for 80% of sales. Some companies aim at such a segment because it is so superficially attractive, but they may be committing the majority fallacy which is a blind pursuit of the largest, most easily identified market segment. This segment is one that everyone in the past has recognized as the best segment and attracts the most intense competition. The result is high marketing expenditure, price cutting, and low profitability. A more sensible strategy is to attract a small, less attractive segment rather than choose the same segment that everyone is after. 7.6.4 Customized Marketing In some markets, the requirements of individual customers are unique and their purchasing power is sufficient to make designing a separate marketing mix for each customer a viable option. Many service providers such as advertising, marketing research firms, architects and solicitors vary their offerings on a customer to customer basis. They will discuss face to face with each customer their requirements and tailor their services accordingly. Customized marketing is also found within organizational markets because of high value of orders and special needs of customers. Customized marketing is associated with close relationships between the supplier and customer because the high value of an order justifies large marketing and sales efforts being focused on each buyer. Check Your Progress 8. "
There is no single, prescribed way of segmenting a market."
Support this statement with the help of an example. 9. What is customized marketing?
126 Self-Instructional Material Segmentation and Targeting NOTES 7.7 SUMMARY In this unit, you learnt that: •
Segmentation involves dividing the market into various groups of customers who desire similar value propositions from a product. The aim of segmentation is to serve customers more effectively and efficiently. • The genesis of segmentation is the realization that there is rarely any product that completely fulfils the desire of every customer equally. Customers seek varying benefits from the same product. Hence, designing a single marketing mix leaves a large potential market that be tapped by competitors who recognize these differences. •
Marketing not based on segmentation is essentially inefficient because some segments get over-engineered, advanced products giving far more value and features are offered than desired by the customers, while other segments do not get the required value and features that customers want. •
Segmentation process can be used to enter new markets with entrenched competitors. Whatever the state of segmentation in the market, there is always the possibility of segmenting it further because howsoever stable a market may be, changes are always happening in it. •

The basic difference in customer desires stems from differential benefits sought by them. These differences can be linked to more visible parameters such as geographic or demographic variables, in order to implement segmentation strategies more efficiently. • Every market can be divided into finer segments to serve customers more effectively. Though ideally every individual should be treated as a separate market, this may be impossible for the company as well as for the customer because of higher costs involved in serving individual customers. • For segmentation strategies to be successful, there should be clear differences in the value propositions sought by customers across segments, and least differences in value propositions sought after by customers within the segment. •
Profile variables such as socioeconomic group or geographic locations are valuable in describing the customers of the identified segment. For instance, a marketer may want to find out whether there are groups of people who value low calories in soft drinks. •
Though every market may have several segments, the company may choose to serve only a few of them after evaluating the attractiveness of these segments, and assessing its own capabilities to serve the segment. •
Social class as a predictor of buyer behavior has been open to question. Many people who hold similar occupation have dissimilar lifestyles and purchasing patterns. Educational qualification and income are also used as variables for segmentation. •
A target market is a group of people or organizations for which a company designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. •
The purpose of evaluating market segments is to choose one or more segments to enter. Target market selection is the choice of which and how many market segments the company will compete in. 7.8 KEY TERMS • Customer value proposition: It
defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers.
Self-Instructional Material 127 Segmentation and Targeting NOTES • Macrosegmentation: It is knowledge that
focuses on characteristics of the buying organization such as company size, industry and geographic location. •
Microsegmentation: It
is a detailed knowledge of the internal functioning of company that concerns the characteristics of decision making such as choice criteria, decision making unit structure, decision making process, buy class, purchasing organization and organizational innovativeness. •
Segmentation: It
refers to the process of identifying clusters of customers who desire the same value proposition. •
Target market: It is a group of people or organizations for which a company designs, implements, and maintains a marketing mix intended to meet the needs of that group, resulting in mutually beneficial and satisfying exchanges. •
Undifferentiated targeting strategy: It is
a mass-market philosophy that views the market as one big market with no individual segments
and
the company uses one marketing mix for the entire market. 7.9
ANSWERS TO 'CHECK YOUR PROGRESS' 1.
Customer value proposition is a unique mix of product and service attributes, customer relations, and corporate image that a company offers that defines how the organization will differentiate itself from competitors to attract, retain and deepen relationships with target customers. 2.
There are three broad groups of consumer segmentation criteria and they are listed as follows: • Behavioural variables • Psychographic variables • Profile variables 3. Segmentation can be used to enter new markets with entrenched competitors.
Instead of launching copycat products and getting into direct confrontation with entrenched players, the entrant can creatively segment the market and locate an underserved one. 4.
Perceptions and beliefs are strongly linked to behavior. Consumers are grouped by identifying these people who view the products in a market in a similar way (perceptual segmentation) and have similar beliefs (belief segmentation). For instance, when it was launched, Ipod by Apple
was well received
to consumers who were passionate about music and also held extremely positive perceptions about the use of technology. 5.
Microsegmentation
is a detailed knowledge of the internal functioning of company. It concerns the characteristics of decision making such as choice criteria, decision making unit structure, decision making process, buy class, purchasing organization and organizational innovativeness.

Microsegmentation is employed while segmenting organizational markets. 6. The two issues that must be tackled by a company while evaluating target market segments are as follows: (i)
Relative attractiveness of the market segments (ii) Company's capability to compete in various segments 7.
In segments where customers are price sensitive there is danger of profit margins being eroded by price competition. Low price sensitive segments are more attractive since margins can be maintained. Competition may be based more on quality and other non- price factors in segments where customers are less price sensitive.
128
Self-Instructional Material Segmentation and Targeting NOTES 8. There are no rules which lay down
how a market should be segmented. The only limitation to the ways in which a market can be segmented is the marketer's ingenuity.
A car market can be broken down according to the type of buyer (individual/organization), by major benefits sought in the car (functionality/status) or by family size (empty nester/ family with children). 9.
In customized marketing, the assumption is requirements of individual customers are unique and their purchasing power is sufficient to make designing a separate marketing mix for each customer. Customized marketing is associated with close relationships between the supplier and customer because the high value of an order justifies large marketing and sales efforts being focused on each buyer. 7.10 QUESTIONS AND EXERCISES Short-Answer Questions 1. What are the advantages of market segmentation? 2. Why is buy class a potentially useful method of segmenting organizational market? 3. What is customer value proposition? How does it help in segmentation? 4. Can markets be served without segmenting them? Long-Answer Questions 1. Can you see any advantages of mass marketing, i.e., treating a market as homogenous and marketing to the whole market with one marketing mix? 2. In what kind of markets is psychographic segmentation likely to prove useful? Why? 3. How might segmentation be of use when marketing in India? 4. One way of segmenting organizational markets is to begin with macrosegmentation variables and then develop subsegments using microsegmentation criteria. Does this seem sensible to you? Are there any circumstances when the process should be reversed? 7.11 FURTHER READING Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.
Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.
Porter, M. E. (1985), op. cit.
Self-Instructional Material 129 Overview of Product Management NOTES UNIT 8 OVERVIEW OF PRODUCT MANAGEMENT Structure 8.0 Introduction 8.1 Unit Objectives 8.2 Classification of Products 8.2.1 Business Product and Consumer Product 8.2.2 Types of Consumer Products 8.2.3 Technology Products 8.2.4 Commodity Products 8.2.5 Customized Products 8.3 Product Mix 8.3.1 Product-Mix Modifications 8.3.2 Excessive Product Variants 8.4 Positioning 8.5 Differentiation 8.5.1 Product Differentiation 8.5.2 Promotional Differentiation 8.5.3 Distribution Differentiation 8.5.4 Price Differentiation 8.5.5 Differentiation in all the Steps of the Consumption Chain 8.6 New Product Development 8.6.1 Defining Innovations 8.6.2 Creating an Innovative Culture 8.6.3 Organizational Structures for Innovation Management 8.6.4 Role of Marketers 8.6.5 Role of Senior Management 8.6.6 Managing the Innovation Process 8.7 Adoption Process 8.8 Product Life Cycles (PLC) and Strategies 8.8.1 Stages of PLC 8.8.2 Strategies at Various Stages of PLC 8.8.3 Uses of PLC 8.8.4 Limitations of PLC 8.8.5 Managing Brand and Product Line Portfolios 8.8.6 Product Strategies for Growth 8.8.7 Product Recalls 8.9 Branding 8.9.1 Understanding a Brand 8.9.2 Brand Attributes 8.9.3 Types of Brands 8.9.4 Brand Building 8.9.5 Brand Name Strategies 8.9.6 Brand Equity 8.10 Pricing Objectives 8.10.1 Factors Affecting Pricing Decisions 8.11 Pricing Methods 8.11.1 Cost Oriented Pricing 8.11.2 Competitor Oriented Pricing 8.11.3 Marketing Oriented Pricing 8.11.4 Value to the Customer 8.12 Pricing Strategies 8.12.1 Initiating Price Changes 8.12.2 Tactics of Price Change 8.12.3 Estimating Competitor Reaction
130 Self-Instructional Material Overview of Product Management NOTES 8.12.4 Reacting to Competitors' Price Changes 8.12.5 Tactics of Reaction 8.12.6 Price Wars 8.12.7 Pricing Cues 8.12.8 Consumption and Pricing 8.12.9 Price Sensitivity 8.13 Channel Design and Channel Management Decisions 8.13.1 Channel Design 8.13.2 Channel Management 8.14 Promotion Mix 8.14.1 Non-traditional Methods of Communication 8.14.2 Sponsorships 8.14.3 Exhibitions 8.14.4 Word of Mouth Promotion 8.15 Advertising 8.15.1 How Advertising Works 8.15.2 Identify and Understand the Target Audience 8.16 Public Relations 8.16.1 Functions of Public Relations 8.16.2 Publicity 8.16.3 New Releases 8.17 Sales Promotion 8.17.1 Growth of Sales Promotion 8.17.2 Effects of Sales Promotion 8.17.3 Major Sales Promotion Techniques 8.17.4 Sales Promotion Objectives 8.17.5 Evaluating Sales Promotion 8.18 Sales Force Marketing 8.18.1 Problems of Sales Management 8.19 Summary 8.20 Key Terms 8.21 Answers to 'Check Your Progress' 8.22 Questions and Exercises 8.23 Further Reading 8.0 INTRODUCTION Product management is an all-encompassing organizational function within a company that deals with brand management, pricing methods and strategies, channel distribution policies and marketing communication and sales promotion. These aspects of
product management are varied and yet complementary with the objective of maximizing sales revenues, market share and profit margins.

These roles of product management span many activities from strategic to tactical and vary based on the organizational structure of the company. Product management can be a function separate on its own as well as an inherent part of marketing. In this unit, you will learn about various aspects of product management in detail. 8.1 UNIT OBJECTIVES After going through this unit, you will be able to: •

Understand how products are classified • Know about the various aspects of product mix, positioning and differentiation • Learn about the need and various stages of new product development and product adoption process • Analyse the concept of product life cycle and its various related strategies

Self-Instructional Material 131 Overview of Product Management NOTES • Know about product brand management • Understand the objectives of pricing and their methods and strategies • Review the nature and types of distribution channels • Assess channel design and channel management decisions • Understand marketing communication in terms of promotion mix, advertising public relations, sales promotion, sales force marketing 8.2 CLASSIFICATION OF PRODUCTS 8.2.1 Business Product and Consumer Product Products can be defined as either business (industrial) or consumer products depending on the buyer's intentions. The main distinction between the two types of products is their intended use. Business products are used to manufacture other goods or services, to facilitate an organization's operations, or to resell to other customers. Consumer products are bought to satisfy an individual's personal wants. Sometimes the same product can be classified as either business or consumer product depending on its intended use. Computers are bought by customers for their own use and they are also bought by organizations to facilitate their operations. Business and consumer products are marketed differently. They are marketed to different target markets and may use different distribution, promotion, and pricing strategies. 8.2.2 Types of Consumer Products Consumer products can be classified according to how much effort is normally expended to buy them. Convenience product Convenience goods are inexpensive products that require little shopping effort. Customers do not shop extensively for such a product. Customers buy convenience products regularly without much planning. Customers are aware of brand names of the popular convenience products. These products are very intensively distributed. Soft drinks, chocolates, deodorants are common convenience products. These products are also called fast moving consumer goods. Shopping product Shopping goods are more expensive than convenience products and are found in fewer retail stores. Customers buy these products only after comparing several brands or stores on style, features, price, and benefits. Customers expend time and effort to select the right product for themselves. Some shopping products like televisions and refrigerators are basically similar and customers buy the lowest priced brand that has the desired features and benefits. Some other convenience products like clothing, furniture, housing, and educational institutes are different because the prices, quality, and features vary from one brand to the other. Customers find it difficult to compare such products on objective criteria and the decision to buy one particular brand is very personal and is based on individual assessment of the merits of the brand. These are also called durable goods. Specialty product Specialty products are those for which customers have strong brand preference and are very fussy about them. They will travel long distances to locate their favorite brand or outlet. They rarely accept substitutes. Designer watches, Rolls Royce cars, restaurants are typical specialty products. Companies marketing specialty products use selective, status-conscious

132 Self-Instructional Material Overview of Product Management NOTES advertising to maintain the product's exclusive image. Distribution is limited to one or a very few outlets in a geographic region. Brand names are a very important selection criteria for specialty products. Unsought product Unsought products are unknown to the potential customers or they are known products that customers do not actively seek. New products come under this category till customers come to know about them through advertising or personal selling. Unsought products are needed by customers but they do not like to think about them and do not want to spend money on them. Such products, like insurance, require aggressive personal selling and persuasive advertising. Customers will not initiate purchase of such items and the companies must reach them directly through salespersons or direct mail. 8.2.3 Technology Products There are several inherent paradoxes in technology products that may prevent or postpone customer adoptions. Companies must diligently address these issues to make customers feel more comfortable. Products are embedded with increasing amount of technology. Products like personal computers and mobile phones are supposed to make customers more efficient, entertain them, and connect them with others. But customers accuse the very same products of wasting their time, confusing them, and isolating them. Customers have an uneasy relationship with technology and this uneasiness affects the way they shop for, buy, and use technology products. Customers see technology as inherently paradoxical, with every quality countered by an opposite negative quality. There are eight paradoxes that govern the relationship between customers and technology: z Control-Chaos: Many technology products are supposed to bring order to the lives of the customers. But they have the capability to disrupt everyday routines. A family dinner can be ruined by malfunction in an oven's automatic timer; a corporate presentation can be disrupted by the equipment's malfunctioning. z Freedom-Enslavement: Products that promise freedom to the customer also put new restrictions on them. The availability of the voice mail lets customers be in a meeting without being disturbed, but makes them feel obligated to constantly check messages and respond to them. z New-Obsolete: Some products have cutting edge technologies embedded in them but owners of such products always have the fear that their products will be rendered obsolete by the introduction of a more advanced model. z Intelligence-Stupidity: Customers feel smarter when they use sophisticated products to solve complex problems. But they also feel stupid because they find it difficult to master the new technology or because they lose old skills. Many customers do not feel good about having forgotten to do simple arithmetic without a calculator, or having to go through a heavy manual before they start using the product they so fondly bought. z Efficiency-Inefficiency: Customers are able to do certain tasks faster but they are not saving time as they have to do time-consuming new chores that the new product imposes on them. Numerous kitchen appliances were supposed to free mankind from the arduous task of cooking. But customers are not spending significantly less time in the kitchen than they were doing earlier. z Fulfilling needs-Creating new needs: Many technology products create new needs even as they serve others. A customer may be able to make a beautiful report using color printer but he will have to spend hours to get the fonts and the colors just right.

Self-Instructional Material 133 Overview of Product Management NOTES z Assimilation-Isolation: Many technologies connect customers among themselves either by creating direct communication links or by providing shared experiences. But these technologies also become a substitute for face-to-face meeting and other social activities. The television keeps customers in touch with world events but it also makes them lonelier in their lives. z Engagements-Disengagements: A technology may enable an activity to be done faster but the customer does not feels sufficiently engaged in the activity and the technology may suck the fun element from the activity. Cooks find microwave useful in speeding up cooking but they do not find the new method of cooking fulfilling. These paradoxes cannot be resolved and cause anxieties to the customer. These anxieties affect the way a customer perceives, purchases, and uses a technology product. Customers use a range of strategies to cope with these anxieties. Some customers borrow appliances from friends and use it to find out if they create new needs or impose new restrictions on them. Some customers use products intensively during trial periods to discover if they would fit well into their lives. Some customers thoroughly research about how the new product would affect their lives before buying it. Some customers set clear-cut rules governing the products they would accept in their lives. They will not buy color monitors to avoid being addicted to playing games. Some customers will not buy a particular product at all as they want to avoid the new burdens the product will impose on them. Some customers purposely avoid owning a mobile phone as they hate the feeling of being available to everyone all the time A company should think carefully about how it can help customers cope with the paradoxes that its product creates. Money-back guarantee makes it easier for customers to test products. Rentals or leases will reduce the anxiety of customers who fear that their product will soon become obsolete. Companies can segment customers according to the prevailing paradox in the use of their products. They should see how their products fit the lives of customers. They should take into account the coping mechanisms adopted by customers when they are designing and marketing their products. A product will not be widely accepted if these paradoxes are not addressed by the makers of these products. It will be too risky to let customers fend for themselves. 8.2.4 Commodity Products Commodity products are hard to differentiate. Reducing risks in such products can help suppliers in differentiating their products and charging a premium from the customer. Marketers have tough time selling products which do not lend themselves to being easily differentiated. Companies resort to price-cutting to be able to sell such commodity products. Smart buyers play one seller against the other to extract the largest concessions. Conventional marketing approaches like bundling products or appending value-enhancing services such as training and consulting can distinguish commodities. These strategies may be able to avoid price wars but they can be so expensive that companies may not be able to recover their costs. There is another way to sell a commodity more profitably.

Customers frequently will pay a premium to the supplier that understands and reduces their

risk. Companies can segment their customers by their exposure to and tolerance for risk and offer customized risk-reduction packages for a price. The customer stands to lose if there are variations in some element of the offering. A hospital that buys commodity sutures may pay more to a supplier whose safety claims are backed by superior clinical trial data – they pay extra for a lower risk. A company making its product on an assembly line will be willing to pay for an assured supply, as any disruption in supply will force him to stop his assembly line. Retailers of perishable products will be willing to

134 Self-Instructional Material Overview of Product Management NOTES pay a premium to suppliers who can manage an extra supply quickly if a product goes out of stock due to sudden spur in demand. Suppliers of commodities will have to

evaluate each customer's perception of risk and his true exposure. Customers will not

volunteer such information and the supplier will have to conduct research to identify the elements of a commodity offering in which variations or uncertainty could generate risks for the buyer, such as variations in product specifications, supply, or demand. The supplier will have to estimate the probability of the given risk- associated negative outcome happening and the loss to the customer if it does. This will help the supplier in deciding the premium to be charged for insuring the customer against the risk. The supplier should also estimate the ability of the customer to withstand the loss. Some customers may be unaware of their risks, and others may believe that their risks are lower than they actually are, or may believe that they can handle the risk themselves. A commodities seller will have to educate its customers about the real risks involved.

The greater the loss a customer stands to incur, and the lesser his ability to withstand that loss, the more a supplier can add value by reducing the customer's risk and more would that customer may be willing to pay to the supplier. 8.2.5 Customized products Companies can immensely benefit by using database management tools to design customized offerings for customers, and forge a learning relationship with them. z Companies should understand that customers do not want more choices. They are more bothered about obtaining exactly what they want, which they often do not get even when they have many choices. Therefore, businesses can gain more if they deliver products that meet the exact specifications of the customer. Database technology permits companies to accumulate data about individual tastes and preferences of customers. This information can be used by companies to customize their offerings for customers at a low cost through flexible manufacturing systems. This can be a potent method of achieving competitive advantage, provided companies can practice it in a cost effective manner. The only caveat for the company is that it may become so obsessed in serving customers with current technologies that it may lose sight of next technology wave. For instance, if a company is operating in the consumer electronics business marketing music systems, it can get a competitive advantage by such customization measures, though it would miss out on the next level of technology, say an MP3. z In mass marketing or segmented marketing, the company designs an average product that a large number of customers would like to some extent. This is a product in which choice of large multitude of customers have been compromised. This product is not perfectly suited for even a single customer but is adequately suitable for a large number of customers. Customers have to find the most suitable product for themselves from the given array of options. In an era of mass customization, it is the responsibility of the company to match or make a product which is suitable for the customer. z A company will need to have a learning relationship with the customer. It means that the company should be aware of changing customer needs, and accordingly keep on tailoring its offering. In such a relationship, both the company and the customer will have to invest time. The company will have to upgrade its design and production capability so that it is able to configure and make products in a short lead time. Though the cost of collecting information about customer requirements has gone down dramatically, for most physical products the cost of designing and making a pure customized product is still high. Therefore, this strategy can be adopted only for selected customers who value the customized offering and are willing to pay for it. z Another method of customization is through modular design. In modular design many varieties of each component of the product are made. All these varieties are mutually

Self-Instructional Material 135 Overview of Product Management NOTES compatible with each other and customers can choose any variety of each component and get the product assembled. This cannot be defined strictly as customization as it offers a customized final product made from standard components. But modular design works out to be cheaper because a large number of variants of the final product can be made from a limited number of components. z Customization is easier and less costly in case of digital products. It is easy to slice and coalesce digital and information products to make it suitable for lone customers without much additional cost. For example, a common financial information pool can be created from which individualized requirements can be met. Or in the music industry the customer can select songs that he prefers, and download them in a CD. z One question that arises with organizations that are involved in learning relationships with customers is the mode of expansion. They can either develop learning relationships with new customers in other locations, or with more customers in the current markets. The third option is to become a learning broker. By becoming a learning broker, the organization leverages the knowledge it has of its existing customers, to act as a unique agent to offer them a wide variety of products and services. Companies that are purely in the business of disseminating information that they have acquired through interactions with customers, can act as a learning brokers by tying up with other companies whose products are required by their existing customers. However, it is not unprecedented even for manufacturers and service providers to engage in this practice. In this case the firm offers only its own products and/or services in the category that it operates in, while in other categories it sells a wide variety of other companies' products. But this strategy makes sense only if the company's knowledge of its customers, and the customers' trust in the company yield greater benefits than merely selling their own products alone. 8.3 PRODUCT MIX A product mix is the total set of brands marketed by the company.

The width of product mix is the number of product lines that a company
offers.

Companies increase the width of their product mix to spread their risk across many product lines rather than depend on one or a few of them. They also widen their product mix to capitalize on their established brand equity.

A product item is a specific version of a product that is designated as a distinct offering

from a company. Most often a company brands each of its product items. Mach 3 is a product item from Gillette. A product line is a group of product items or brands that are closely related in terms of their functions and benefits they provide. Companies like Unilever have many product lines. Personal care products and packaged foods are two product lines of Unilever. Gillette's product lines include blades and razors, toiletries, and writing instruments. The depth of a product line is the number of product items or brands it contains. Gillette's razor and blade product line include brands like MACH 3, Sensor, Trac III, Atra, etc. The depth of product line depends upon the pattern of customer requirements (the number of segments to be found in the market), the product depth of competitors and the company's resources. Companies increase the depth, i.e., add more brands to their product lines to attract buyers with different preferences and to increase sales by further segmenting the market. Managing brands and product lines are key elements of the product strategy. Check Your Progress 1. What are the different types of consumer products? 2. What do you understand by modular design in terms of customized products?
136 Self-Instructional Material Overview of Product Management NOTES 8.3.1 Product-Mix Modifications A
company's product mix is never static. Customers' preferences change, new customer segments emerge, and
company's competencies and priorities change. All these changes warrant a change in a company's product mix. z
Product
mix expansion Product mix expansion is achieved by increasing the depth within a particular
product line i.e. new brands or variants of existing brands are added to the product line and/or by increasing the number of product lines. z Line extension
When a company adds a similar item to an existing product line with the same brand name,
it is called line extension. A company resorts to
line extension to appeal to more market segments by offering a wide range of
options of flavors, color, size, etc.
for a particular product.
z
Mix extension New product lines are added to the company's present assortment. The new lines may be related or unrelated to the current products.
The company may use one of the existing brand names or may give an entirely new name to the new product lines. When a company uses one of its existing brands to offer a new product line, it is called brand extension. z Trading up A company adds a higher priced product to a product line to add prestige to the line and
attract a broader market. The company hopes that the new product's prestige will help the sale of
lower priced products. But this has proved to be onerous task for companies. If the existing brand name is used for the new high priced product, the company must change its image enough so that new customers will accept the higher priced product. The company does not want to lose present customers who will be increasingly confused about the company's image. But the company may lose existing customers who will believe that the company's offers are no more economical. The new customers may not be convinced about the premiumness of the new product because of the company's long-time association with low priced products. If the company uses a different brand name for its new higher priced product, it will have to spend enormous resources in branding it.
z
Trading down A company adds
a lower priced product to its product line.
The company
wants to attract customers who cannot afford the original higher priced products or who
find the current products too expensive. This strategy does attract buyers because the lower priced product carries some of the status and some of the benefits of the higher priced product. But the company will be in problem if the customers of the higher priced products shift to buying lower priced ones. The new low priced products may also damage the company's reputation and image of its established high quality products. To control such a damage the new low priced products may be given new brand names. z
Product
mix contraction Product mix contraction is achieved either by eliminating an entire product line or eliminating a few product items or brands from within a line. The idea is to weed out low-profit and unprofitable product items or product lines and earn higher profits from fewer products.
Self-Instructional Material 137 Overview of Product Management NOTES z

Repositioning Repositioning involves changing customers' perceptions of a brand. It involves changing the product's attributes and communication to the customers. z Product modification Product modification will involve changing the quality levels of the product item to make it more appropriate for the target market, functional modifications to reflect changing customer requirements and to incorporate latest technologies, and style modification to appeal to customers' emerging aesthetic concerns. z Planned obsolescence This is the practice of modifying products so that those that have already been sold become obsolete before they actually need replacement. The modified product is substantially different and better than the earlier versions, and customers who possess the earlier versions feel disadvantaged or unfashionable. 8.3.2

Excessive Product Variants Excessive product variants and promotion proliferation confuses customers, and adds to their woes. The marketer's job is to simplify customers' consumption decisions. Companies have gone overboard in launching variants of their products. A company may have dozens of variants of a product on the shelves, though a large majority of customers buy from among only a few of them. Snapple at one time had more than seventy flavor varieties on the shelves despite the fact that six flavors accounted for the majority of the company's sales. Companies are trying to satisfy and make a sale on every fleeting desire or whim of the customer. But customers view the scene differently. They see a bewildering array of seemingly undifferentiated product offerings and find it difficult to make a choice among them. And even when they know exactly what they want to buy, and purchase that particular item, the mere presence of so many options creates a doubt in their mind about whether they made the right choice. Companies launch extensions that customers perceive as meaningless, because from inside a rigid brand management structure, management simply cannot tell what will resonate with customers and what will not. Companies will have to realize that endless introductions create noise, not customer needs. They should be more rigorous in evaluating customers' likely reactions to new product and extensions. Companies should endeavor to ensure that their product lines adhere to a quality-of-life based mission. They should standardize their product formulas and packages, reduce their deluge of promotions and coupons, prune marginal brands from their lines and cut back on their new product launches. The idea is to simplify the buying decision of the customer and the consequent use of the product. Different customers like different flavors and colors etc., but differences come from a very narrow set of options. Once a company has identified that set, its offerings should remain within it. 8.4 POSITIONING Positioning is the perception or the image that customers have of the company and its products. It is the customers' beliefs about the company's product being of, say, high quality, or low price, or durable, etc. This perception is the stimulus of customers' attitude and behavior towards company's products. Customers' positive perceptions will drive the business of the company and negative perceptions will sink it. Check Your Progress 3. Define what product mix is. 4. What is line extension?

138 Self-Instructional Material Overview of Product Management NOTES It is dangerous and ridiculous to allow customers to develop their own perceptions about the company. It is the responsibility of the company to manage its customers' perceptions. A company should very clearly decide the perceptions that it wants its customers to have about the company and its products, and work consciously and diligently to create that image in customers' mind. Every fact and act of the company shapes customer perceptions directly or indirectly. A company should evaluate its every activity in terms of its role in creating positive customer perceptions. Elements of positioning A company has to select the target market in which it will offer its products. It will have to determine the differential value that it will provide to customers to make the product attractive to them, and communicate to customers the differential value it intends to provide to them. Communicating the differential advantage to customers A company may have created the appropriate offering for its target market but its customers should know that it has. Most companies are content with using advertisements to convey their positioning. Advertisements have become more glossy and most advertising agencies do not understand the positioning of their client company empathically enough to be able to convey it in the ads that they make. But even when an honest attempt is made to convey a company's positioning through advertising, it cannot be done due to the short and impersonal pitch of advertisements. A company has to use all promotional means like publicity, sponsorship, personal selling, and direct mails to inundate customers with messages of its positioning. Of course, these messages emanating from the various sources should be consistent. In addition, every contact between the customers and the company should be so structured that its positioning is unambiguously conveyed. The first products should reach customers who are likely to be very exuberant upon finding a good product. Word- of-mouth promotion will ultimately cement the company's positioning in the customers' mind. The objective of positioning is to create and maintain a distinctive place in the market for the company's products. Target market selection is a part of positioning. But to compete successfully in a target market involves providing customers with a differential advantage. This involves giving customers something better than what the competitors are offering. Ries and Trout on positioning Ries and Trout suggest that marketers are involved in a battle for minds of target customers. Successful positioning is creating favorable connotations in the minds of customers. Mercedes is associated with sophistication, prestige, world class German engineering and class round the world. McDonald's is associated with cleanliness, consistency of product, fast service and value for money . These add up to a differential advantage in the minds of target consumers. 8.5 DIFFERENTIATION A company's offer has to be distinct from those of its competitors and should fulfill the requirements of the customers of its target markets. A company's positioning is the result of whatever the company does. Marketing mix is the most tangible and the most flexible tool to create the desired positioning. Companies use their marketing mix to create something specific and special for the customer 8.5.1 Product Differentiation Product differentiation results from added features which give customers benefits that rivals cannot match. Before adding features, a company should thoroughly research the need for Check Your Progress 5. Define what positioning is. 6. What is Ries and Trout's take on positioning?

Self-Instructional Material 139 Overview of Product Management NOTES the particular feature among customers in the intended target market. Companies keep on adding new features just because their competitors are offering them. Sometimes deletion of features and benefits from a product may be a very effective differentiation because customers never really wanted these benefits. Adding the same features as competitors may make the products of a company more acceptable among customers, though it may end up introducing similar products that does not result in any differential advantage. Such a strategy of matching features and benefits will result in product parity, with no company providing any compelling reasons to the customer for buying its product. In such industries customers will buy on the basis of price, and competitors will be forced to cut prices to grab customers from each other. The profit of every company will go down. Companies will not have the ability to differentiate their product as they will not have enough resources due to their dwindling profit margins. The only way out of this mess is that companies should pick up courage, arrange resources and start differentiating their products from each other. Price based competition should be avoided. Most of the time, in most categories of goods, consumers get products with features that they could do without and are needlessly paying for them. Most products can be made more suitable for their target markets by deletion of certain features. Nokia has introduced a stripped down version of the cellular phone for the entry level customer in India. The phone is a contrast to the ones that offer internet usage, m-commerce, camera etc. It serves the basic purpose of mobile connectivity. Many customers are realizing that they do not need what they have bought and are switching over to these simpler phones. This phenomenon is likely to be repeated in many categories of goods once simpler options are available at lesser prices. A product can be differentiated on the basis of the features offered by it (door cooling technology in a refrigerator), benefits (air-conditioner that cools fastests), performance (like that gives maximum mileage per litre of petrol), style (appealing looks of a car), reliability (a software that sacrifies problems by itself, and thus, keeps running), or overall design (a razor that looks good, shaves better and closer, and also costs less). A company can choose to differentiate along one, or several parameter depending on its own competencies, and examining the products of its competitors. 8.5.2 Promotional Differentiation Promotional differentiation arises from unique, valued images created by advertising or superior services provided by salespeople. People in different target markets are likely to react differently to certain stimuli like emotions, images, storylines, celebrities etc. It is important to identify the stimuli which will evoke the desired response in members of the target market. It may be an extremely intricate task but it is imperative to find out whether the members prefer emotional or rational messages, whether they like humor or sedate messages, whether they like narratives or musicals etc. Unless the company has determined the choice of the consumers on all the variables that affect an advertisement it cannot create an advertisement which is suitable for members of the target market but is unsuitable for any other target market. Sadly most advertisements look and sound similar and are not suitable for any particular target market and do not elicit the desired response. Similarly different target markets will require different types of sales presentations, persuasions and relationships with the seller. 8.5.3 Distribution Differentiation Distribution differentiation arises by making the buy situation more convenient for customers. Different target markets will require different activities to make the buying situation more convenient for them. Customers hard pressed for time have welcomed introduction of

140 Self-Instructional Material Overview of Product Management NOTES automated teller machines. But some customers would still prefer to visit the bank to conduct transactions which can easily be carried out through the ATMs. Cans of carbonated soft drinks from vending machines are finding favor with youngsters from the upper strata in India who believe that this is the original Coke or Pepsi. Different distribution channels like telemarketing, direct mails, internet marketing, personal selling are being used to lure customers of the same target market resulting in irritability among customers, duplication of efforts and high costs. This is particularly true of credit card markets, internet service providers etc. The adequate strategy would be to identify the most suitable distribution channel for each target market and pursue it. The Indian cosmetic major Lakme maintains three types of distinct distribution channels for its three target markets. The small neighborhood shops store commonly used skin care products such as moisturizers and sunscreen lotions. The bigger shops in central marketplaces and specialty stores stock the complete range of personal care products. The exclusive salons started by Hindustan Lever (the company that owns the Lakme brand) targets the elite group and stocks the exclusive range of premium cosmetics, besides providing grooming services. Sometimes customers would like to compare different brands before deciding on one. This is particularly true for high priced items like cars which are mostly sold from one-brand stores. The company has to make it convenient for customers to compare brands. It would be a good idea to locate stores of different brands near each other or permit their brands to be sold in multiple-brand stores. Customers will inevitably compare, and so a company might as well make it convenient for them and let it happen in his proximity so that it can exert some influence over the choice. For products that are bought on impulse it is important to make it available widely as the consumer will buy the next preferred brand if his desired brand is not available. It is imperative for the company to understand that in the same product category, members of different target markets will buy differently. Therefore, it is important to tailor the distribution arrangements according to the way the target market shops. 8.5.4 Price Differentiation Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such an estimation. A target market can be totally price insensitive and desire value of the highest order. These values can be exclusivity, sheer luxury, symbol of status or royalty. They essentially signify belongingness to an exclusive club and are often accompanied with the owner's passionate attachment to the product. A target market can be highly price sensitive and will go for mere functionality of the product if it finds the price of available products high. Customers of this target market yearn for better products, but will not be willing to pay a price for it. If a company offers a better product at the existing price level, such customers would buy it. A third type of target market is emerging. This market's price sensitivity is moderate and is willing to pay higher price for more features and benefits. This would be a big market in the future because income and aspiration levels of customers are rising throughout the world. Most segments desire the same values. What differentiates them is the manifestation of these values. For instance, luxury is a desirable value for all the above segments. But the way luxury is manifested, say, for the purchase of a product category such as automobiles, presents vast contrasts. The super luxury segment would be interested in the ultimate luxury statement, maybe a BMW 7i series, the highly price sensitive segment may buy its first small car for the family, whereas the market with moderate price sensitivity may purchase a mass luxury car. Therefore, it becomes essential to define the target market in terms of its price sensitivity and its corresponding desire for high order values like royalty, mere functionality/benefits and more features / benefits.

Self-Instructional Material 141 Overview of Product Management NOTES 8.5.5 Differentiation in all the Steps of the Consumption Chain Most companies value and expend huge efforts in differentiating their offerings. They offer customers something that customers value, that is not provided by competitors. But most companies, in seeking to differentiate themselves, focus their energy only on their products or services. But a company has the opportunity to differentiate itself at every point it comes in contact with its customers – from the moment customers realize that they need a product or a service to the time they decide to dispose of it.

If a company opens up its creative thinking to its customer's entire experience with a product or service, they can uncover new opportunities to position their offering. The first step is to map the customer's experience with the product or the service. The company should perform this exercise for each customer segment. The company will have to brainstorm how it can differentiate itself at each of the encounters it has with its customers. z The customer has to be aware of his needs before he thinks of satisfying them. A company has to be creative at this step. A toothpaste manufacturer can pack the last few milligrams of the paste in the tube in a color different from the rest of the paste. Jars of food-items and even other item like paints can have prominently displayed "buy now" at the lower part. Equipments which are required to be serviced can have lights glowing when service is due. And if it is not possible to provide such indicators companies can always keep a track of consumption rates and usage time and remind customers that they will soon require a refill or a new buy. The idea is to remove the customer's worry about his forgetting to procure products or service in time. The customer understands that he will be reminded when his insurance premium becomes due or when his car becomes due for service or before the food-items in his kitchen run out of stock. z The customer will engage in a search process before buying howsoever limited or extensive it may be, depending upon the product or the service he is buying. The company has to facilitate this search process. When a customer is buying a chocolate, the search process may entail just having a glance at all the jars containing different brands in the retail outlet. Thus, all the jars will have to placed in a way such that customer is able to have an unobstructed view of all the jars. But when a customer is buying a car he may like to test-drive a few cars of other carmakers before he settles down on one which he will buy. The car dealer will have to facilitate this process. The idea is not to circumvent the search process of the customer, as any effort to do so will annoy him. The process must be made convenient, less time-consuming and less costly for the consumer. z The company has an opportunity to differentiate itself by making it convenient for the customer to buy the product. A company may accept the customer's order on phone or send a salesperson to place an order. In cases of routine purchases, a company may obviate the necessity of placing an order by monitoring the inventory of the buyer and sending replenishments automatically. Manufacturers may stock the shelves of their retailers, without the retailers having to place an order. The company should organize its interaction with its customers such that the step of placing an order is seamlessly merged in the search process of the customer. The customer should not have to act deliberately to place an order. As soon he has conveyed intentions to buy, he can assume that his orders have been placed. A company cannot expect its customers to comply with procedures that make no sense to the customer, though the company may have installed these to streamline its own working. z The product or the service delivery can be managed in such a manner so as to provide real value to the customer. The promised time of delivery should always be adhered to. The company should arrange for the delivery of the amount, in the type of packing and to the destination prescribed by the customer. In service industries, the promptness and correctness of the service delivered can be a huge competitive advantage. Financial

142 Self-Instructional Material Overview of Product Management NOTES service companies like those dealing with insurance have immense potential to reduce the inconvenience of customers by improving their service delivery. In service sector service delivery can be major source of differentiation. z Installation can be a major problem especially with complicated equipments. The company should assume full responsibility for installation and commissioning of the equipment. The company should ensure help to customers in running the equipment in the beginning. z The company should agree to be paid in the way the customer wants to pay, unless it is illegal or detrimental to its interests. A company can differentiate itself when the customer has to pay regular installments for long periods. The customer should not have to make special efforts to make payments to the company. Insisting to be paid in a certain manner and ruling out the possibility of accepting payments through other modes will give an opportunity to competitors to differentiate themselves by making it more convenient for the customer to pay. z The way a product can be stored provides another opportunity for differentiation. The storage mechanism should match with the physical surrounding of the customer. The storage mechanism should also ensure ease of taking out the product for use. Packing has to be improved so as to facilitate storage as well as use of the product. Similarly if the product has to be moved around, it should not be too cumbersome or difficult. Simple innovations can ease the life of customers by making it simpler for him to move the items. The customer may have to carry the product with him. The company can improve the design of the product in such a way that it is convenient for him to carry it, and also make it fashionable to carry in that way. z The way a company arranges to get its customers' products repaired or replaced can also be a differentiating factor. The company should not let its customer worry about the malfunctioning of the company's product, and its effect on the company and his business. The company can install systems by which it comes to know of the malfunctioning of the product in the customer's premise and act promptly. Even if this is not possible, it should take complete responsibility for the rectification for the product and make sure that customer's interests are not harmed when the product is being repaired. It is never a bad idea to provide customers with a replacement product when the product is being repaired, so that the customer's interests do not suffer. z If for any reason the customer wants to return the product, it should not turn into a nightmare for him with nobody accepting the product initially. And later when somebody picks up the courage to accept the returned product, there may be inordinate delays in getting his money back. As far as possible a company should have a no-questions-asked return policy at a place most convenient for customers, with instant repayment. The customer may be returning the item, but the company should manage the exit process in a way that the customer feels like coming back. z And finally a company should design its product in such a way as to make it convenient for the customer to dispose it off and even earn something out of it. z Any time, at any stage of the product's use, should a customer require help, the company should always be forthcoming. If nothing else, the company can at least differentiate itself by being nice and courteous, and offering to help in any way the company could. Through diligence, a company can unearth innumerable opportunities to differentiate itself. And when these differentiations play out at all the points of the customer's interaction with the company, competitors cannot hope to match the offering, as it will require the competitors to overhaul their whole business. Check Your Progress 7. What causes promotional differentiation? 8. What does price differentiation involve?

Self-Instructional Material 143 Overview of Product Management NOTES 8.6 NEW PRODUCT DEVELOPMENT Corporate success will increasingly depend on bringing new products to the market. Changing customer tastes, technological advances and competitive pressures mean that companies cannot rely on past product successes. Most new products fail but failures have to be tolerated in the process of bringing new products. The real test is the number of successful products that the company is able to launch. Invention is the discovery of new ideas and methods. Innovation occurs when an invention is commercialized by bringing it to the market. Companies have to be active on both these fronts. 8.6.1 Defining Innovations Innovations may be looked at from various perspectives. The following classification presents the perspectives of the customer and the target market. Customers' perspective Innovations can be of three types, on the basis of the extent of change they cause in consumer's existing habits – Discontinuous innovations, Dynamically continuous innovations and Continuous innovations. The classification of an innovation along the above lines is done on the basis of the extent to which the innovation causes change in existing customer habits. Therefore, the type of innovation depends on the type of customer towards which it is aimed at. The same innovation may be continuous for one segment of customers and dynamically continuous for another. The discontinuous innovation causes a drastic change in customers' existing habits. z Discontinuous innovations Discontinuous innovations by their very nature are discontinuous to every customer segment, since they comprise new to the world products only. These new products are so fundamentally different from products that already exist that they reshape markets and competition. For instance, mobile phone technology and the internet drastically changed the way people communicate. z Continuous innovations Continuous innovation is the other extreme where an existing product undergoes marginal changes, without altering customer habits. Sometimes the customer may not even perceive these products to be new though the company may invested a lot of money to improve its existing products. For instance, a shampoo which is different from existing products only in its brand name, fragrance, colour, packing is also a new product, though it is a continuous innovation. The continuous innovation should be above the perceptual threshold of the customer, i.e., there should be a 'Just Noticeable Difference' (jnd) between the continuous innovation and the existing options for the customer to perceive this innovation as an improvement. Put simply, the customer should find the new product different from the existing options that he is aware of. z Dynamically continuous Dynamically continuous innovation falls between the discontinuous and continuous innovation. The changes in customer habits caused by such an innovation are not as large as in a discontinuous innovation, and not as negligible as in a continuous innovation. The progression from a manual to an electronic typewriter, and the advent of cable and satellite television are examples. Company's perspective A company may define an innovation differently based on what the company tries to achieve from the new product.

144 Self-Instructional Material Overview of Product Management NOTES z Product replacements include revisions and adjustments of exiting products, repositioning and cost reductions. For instance, Tata Motors limited, an Indian automobile manufacturer improved its first offering Indica and relaunched it after receiving customer complaints. z Addition to existing lines, for instance, addition of new brands, new technologies (for instance, Pentium IV processor, an improvement over Pentium III, or Mach III over Mach II by Gillette), new varieties of flavors, fragrances, SKUs (size of the product, for instance, a 100 gm toothpaste along with the existing 250 gm tubes), product forms (for instance, liquid soaps in addition to bars) etc. z New product lines, when the company moves to new product lines that hitherto did not exist in their portfolio. It widens the company's product mix. For instance, LG, the Korean electronics company is now manufacturing soaps and shampoos in the Indian market, besides being a major player in the consumer electronics market. Another Korean company Daewoo (acquired by GM), which manufactured cars, is now moving into consumer electronics. z New to the world products are those products that create entirely new markets. These products carry the highest risk since it is difficult to predict customers' reaction. Marketing research will be unreliable in predicting demand as people do not really understand the full benefits of the product until they get a chance to experience them. It may take time for the products to be accepted. But if and when these products are accepted, the company's gains are huge. Successful new to the world products are pure technological innovations which serve a very strong latent need. There was always the need for mobile connectivity but a simple marketing research exercise would not have revealed this need as customers believed that this need cannot be met. How many times have we been stuck in traffic jams wanting to contact our people at home but still did not curse technologists or marketers for not providing us mobile connectivity. The idea of mobile connectivity did not cross our minds because we believed that it was in realms of infeasibility. But as soon as the relevant technology came forth to enable the mobile connectivity, customers lapped it up. Probably, the diffusion of mobile connectivity among customers across the world has been faster than that of any other technology. Successful new to the world products are the concurrence of strong latent needs and emergence of an enabling technology. However, it is clear that the classification of innovation from a firm's perspective can also be included in the earlier classification of discontinuous, dynamically continuous and continuous innovations. For instance, new to the world products are discontinuous innovations, while product replacements are continuous innovations. Firms need to understand that continuous innovations such as adding a brand variant to an existing product line lack significant risk, but offers less significant returns, while discontinuous innovations are extremely risky, but if successful, returns could be huge. 8.6.2 Creating an Innovative Culture It has become imperative to create a corporate culture that promotes and rewards innovation. The surest way to kill an innovative spirit is to punish creators and pursuers of new ideas when they fail, and reward people who manage the status quo. Companies that encourage their employees to take risks and have tolerant attitude towards failure are more likely to innovate successfully. Management should visibly support new product development in general, and high profile projects in particular. Senior management should reinforce their words by allowing time off from their usual duties to employees who wish to develop their own ideas. Management

Self-Instructional Material 145 Overview of Product Management NOTES should make available funds and resources to them and make themselves accessible when difficult decisions need to be taken. Whenever a new idea is suggested, the tendency of the listener is to think of negatives. Management should resist the temptation of automatic nay-say. There will come a time to scrutinize the proposal but only after the proposal has received an initial encouraging response. Stifling new ideas at the conception stage serves only to demotivate the proposer from trying again. People involved in new product development should not be evaluated on the parameters that other functions are being evaluated upon. They should not be evaluated on the basis of traditional performance appraisal measures such as the fulfillment of an expected revenue target. Management should understand that there would be occasions when the development team of the company would not be able to produce tangible results for very long periods of time. The management should not be harsh on failures. They should be appreciative of the team's efforts so long as they believe that the team is sincere and is working towards the company's good. In fact the management should defend the team before detractors when results are not forthcoming even after spending huge sums of money. 8.6.3 Organizational Structures for Innovation Management Project teams Project teams bring together staff from such areas as R&D, engineering, finance and marketing to work on a new product development project. Companies must move from rigid functional organizational structures to integrated ones. The project team is linked directly to the top management to avoid having to communicate, and get approval from several layers of management. Such teams have been used by IBM and Mahindra & Mahindra (for the launch of their SUV Scorpio) in India. The team may be physically separated from other employees to avoid bureaucratic intrusions. Members of the project team may continue to manage the product after commercialization. By bringing together design and manufacturing engineers, the product development cycle is reduced. Such teams are capable of bringing out novel products as they are not committed to any existing product. This is quite common in technology companies. Product and brand managers The managers managing the products and the brands are also responsible for developing new products in some companies. They have the task of coordinating functional areas. Support of functional areas like market research, R&D, operations are required for creating new product ideas, improve existing products and brand extensions. A new product development manager may help the product and brand managers in generating and testing new product concepts. This arrangement is not likely to create a breakthrough product because the product manager is too close to the existing product to be able to think of something which is dramatically different from it. At best, they can manage to develop good revisions of the existing product. New product committee The review of new product projects is normally done by high ranking functional managers who listen to progress reports and decide whether the next round of funds should be disbursed. Project teams have to demonstrate that the idea is worth pursuing. 8.6.4 Role of Marketers New product development is erroneously perceived as the exclusive domain of developers. If a company has to launch successful products, the role and importance of marketers have to be as important as that of developers during the product development process.

146 Self-Instructional Material Overview of Product Management NOTES z Marketing should work with R&D to establish clear, mutually agreed project priorities to reduce chances of pet projects. Left alone, technical people will have plenty of fanciful ideas to pursue and marketers will have plenty of esoteric customer needs they would like to serve. Product development teams have to come up with solutions to customers' needs which can be sold profitably. z The company should improve the provision of marketing information to R&D. Marketing must give R&D people timely and quality information. Marketers should be very prompt in informing R&D of any change in customer needs that might have occurred since they last gave them the required information. It is the responsibility of the marketing department to ensure that customers' latest needs are incorporated in the new product. R&D personnel should be made part of the marketing research team so that questions on their minds could be incorporated into the study. There would be nothing like product developers themselves researching customer needs. As a developer listens to customer requirements, he is able to play the possible solution in his mind and seeks clarification from customers regarding its suitability. The iteration will go on in the developer's mind till the developer figures out the right solution. z Marketing should encourage R&D personnel to be more customer savvy by inviting them to attend trade shows, take part in customer visits and prepare customer materials. R&D people can find it irritating to incorporate customers' requirements in every idea they conceive. Customers' requirements constrain creativity of developers and they may start considering them an intrusion in their pursuit of the next big idea. R&D people have to be brought in touch with customers and their very genuine needs to make them empathize with their needs. When developers have empathy for customers' needs, they are likely to produce designs that are true to the customers' needs. z There are important personality and value differences between R&D and marketing. The most important difference is that while marketers are fixated on customer requirements, developers sometimes want to pursue ideas which interest them. It is important for marketing to develop informal relationship with R&D department. At any one time, a developer is playing around with many ideas. A marketer should be in such a relationship with a developer that he feels comfortable sharing these ideas, some of which he himself might consider too ambitious. The marketer can quickly gauge if some of the ideas incubating in the developer's mind can be helpful in serving some customer needs. z It is important that marketers get over their technology phobia and learn more about technology. If marketers become comfortable with technology, they would communicate more effectively with the R&D people, understand various product design trade offs and comprehend the capabilities and limits of technology to create competitive advantages and provide solutions to customer problems. Technology savvy marketers would understand that some customer requirements cannot be met howsoever legitimate or urgent they may be, because the required technology is not available or it would be prohibitively expensive to serve them. They would not constantly harp on profitable opportunities to serve some customer needs which the company is missing, because the R&D is not able to come up with solutions for these needs. They would also refrain from making exaggerated promises to customers because they would know that the company will not be able to fulfill them. Marketing people are often preoccupied with present products to the neglect of new products. Product development process should be formalized and the involvement of marketing should

Self-Instructional Material 147 Overview of Product Management NOTES be mandatory. Marketers should be as fanatic about serving unmet customer needs as the developers are about pursuing their new ideas. Often the blockbuster product is developed when marketers and developers collaborate to give form to their common fantasy. 8.6.5 Role of Senior Management z Senior management should locate marketing and R&D near to each other to encourage communication and development of informal relationships. They should clarify role of marketing, operations, finance and R&D in developing new products and reduce the number of approvals required for small changes in a project. They should encourage these departments to work together informally and facilitate co-ownership of the project among the various departments z They should also show personal interest in new product development. Whenever a development team requests their presence in a meeting where their project is being evaluated or discussed, they should make it a point to attend. A development team often requires the cooperation of other functions and when the senior management is seen showing interest in a project, the functional experts will be more willing to cooperate with the development team. Senior management will also have to protect the development team from undue interference from other people in the organization. z They should provide strategic direction. The development team should know what it has to achieve for the company. It should know whether its agenda is to find a solution to an unmet customer need, or to improve an existing product, or to develop a product to match a competitor's product. Though a development team without an agenda may chance upon a great product, the productivity of developments are greatest when their activities are focused. It is important that development team is pursuing limited number of ideas and is not spreading its resources too thin, z It does not serve any purpose if the senior management merely exhorts its developers to create the next hot product. Product development is a costly exercise and it is more than dreaming up of ideas. Expensive equipments have to be installed, people with diverse skills have to be assembled, and the project has to be supported for long periods even when no tangible outcomes may be forthcoming. To be able to commit such resources the top management has to be convinced that its survival and prosperity depends on generation of new products and that its development team is capable of creating such products. Investment in R&D is matter of faith more than anything else. z Senior management should encourage teamwork between R&D and marketing. The management should insist that marketing becomes involved with R&D in product development much earlier in the process, so that the needs of customers are reflected more prominently in whatever the development team does. 8.6.6 Managing the Innovation

Process Product development process is expensive, risky and time consuming. Though world- shaping innovations have emerged from the "garages" and will continue do so, companies cannot depend solely on flashes of brilliance and inspiration to provide their next

bread earner or even their next blockbuster. It is too frightening.

In absence of any better method to bring out new products a formal process with review points, clear new product goals, and strong marketing orientations underlying the process is being relied upon by companies to achieve greater success. An eight step new product development process consists of

new product strategy, idea generation, screening, concept testing, business analysis, product development, market testing, commercialization.

New products pass through each stage at varying speeds.

148

Self-Instructional Material Overview of Product Management NOTES (i)

New product strategy Senior management should provide vision and priorities for new product development. It should give guidelines about which product or market the company is interested in serving. It has to provide a focus for the areas in which idea generation should take place. By outlining their objectives, for instance, market share, profitability, or technological leadership for new products, the senior management can provide indicators for screening criteria that should be used to evaluate these ideas. A development team is likely to achieve better results if it concentrates its resources on a few projects instead of taking shots at anything that might work. Since the outcome of new product development process is unpredictable, a company might believe that it is taking a risk by working on only a few new ideas. Howsoever unpredictable the new product development process may be, chances of success will definitely improve if the team knows precisely what it wants to achieve from the process,

it

puts its best people in the project, and has enough resources to commit to the project. (ii) Idea generation Developing an innovative culture that kindles imagination is a prerequisite.

In such an environment every employee is alert to new opportunities. Great ideas come in a period of quiet contemplation uninterrupted by bustle of everyday life and work.

Sources of new product ideas can be internal to the company. Scientists, engineers, marketers, salespeople, designers can be rich sources of new ideas. Companies use brainstorming to stimulate creation of ideas and financial incentives to persuade people to

put forward ideas they have. Though any one

can come up with a brilliant idea, a company can work systematically to generate great ideas. (
iii) Idea screening Screening of ideas is done to evaluate their commercial worth. Criterias may be used which measure the attractiveness of the market for the proposed product, the fit between product and company objectives, and the capability of the company to produce and market the product. Sales growth and return on assets could be some such criteria on the basis of which ideas are evaluated.
Unique designs that lower costs or give performance advantages are also considered. Though it is difficult to accurately forecast the success of an idea at this stage, the process helps the company to check if the idea is in alignment with the company's objectives and competencies and that the idea has reasonable chances of success. The process helps the company to wean out fanciful ideas. But
some such fanciful
Self-Instructional Material 149 Overview of Product Management NOTES idea may entice the management at this stage and the originator of the idea may get permission to go ahead with it. (iv) Concept testing Each basic product idea can be expanded into several product concepts, each of which can be compared by testing with target customers. A product concept is a particular combination of features, benefits, and price. Alternate product concepts are evaluated by customers. Though it may still be a description rather than the actual product, customers have something tangible to react to. Concept testing allows views of customers to enter the new product development process at an early stage. The concept may be described verbally or pictorially so that major features are understood. Potential customers can then state whether they perceive any benefits accruing from the features. A questionnaire is used to ascertain such queries as the extent of liking/ disliking, what is liked/disliked, the kind of person/organization that would buy the product, how/where/when/how often the product would be used, prices acceptability and how likely they would buy the product. (v) Business analysis Estimates of sales, cost and profits are made. The company identifies the product target market, its size, and projected product acceptance over a number of years. The company considers various prices and their implications on sales revenues. Costs and break even point are estimated. Sensitivity analysis is done in which variations from given assumptions about price, cost, customer acceptance are checked to see how they would impact on sales revenue and profit. Optimistic, most likely and pessimistic scenarios can be drawn up to estimate degree of risk attached to the project. The idea is to test if the proposed product will generate enough revenues and profits to justify the expenses that its development and marketing will entail. Though it is not possible to draw reliable conclusions from such futuristic analysis, it does force company's executives to peep into what the proposed product can or cannot achieve for the company. If they decipher that the proposed product has huge potentials they can pump more resources and expedite the project. The process permits the commercial instincts of the executives to be put to test. (vi) Product development The preferred new product concept is developed into a physical product. Components have to be designed in terms of length, width, diameter, angle etc. and arranged to be assemble in a manner which provides the features and benefits of the selected product concept. Multi-disciplinary project teams are established to bring the product to the marketplace. The aim is to integrate the skills of designers, engineers, production, finance and marketing specialists so that product development is quicker, less costly and results in high quality products. Designers and production engineers work together rather than passing the project from one development stage to another. Use of 3D solid modelling, CAD, CAM is cutting time to market. R&D would focus on functional aspects of product whereas marketing would keep the project team aware of psychological factors. Marketers need to understand and communicate the important attributes that customers are looking for in the product even as the product is being developed. Marketing may brief R&D on product concept and the latter will be responsible with the job of turning the concept into reality. Product testing at this stage focuses on the functional aspects of the product and consumer acceptance. Products need to be tested with consumers to check acceptability in use. Paired comparison tests are used when the new product is used alongside a rival so that respondents have a benchmark against which to judge the new offering. Overall preference information as well as comparisons on specific
150 Self-Instructional Material Overview of Product Management NOTES attributes are done. In monadic placement tests only the new product is given to users for trial. Experts can also be used. When testing products in business markets, products may be placed with customers free of charge to check preference. (vii) Market testing
So far in the development process, potential customers have been asked if they intend to buy the product but have never been placed in the position of having to pay for it. Now customers are forced to vote with their money. The
basic idea is to launch the new product in a limited way so that the customer response in the marketplace can be assessed and a decision can be made as to whether the product should launched in the whole market. In a simulated market test, the principle is to set up a realistic market situation in which a sample of customers choose to buy goods from a range provided by the organizing company.
For instance, a sample of customers may be recruited to buy their groceries from a mobile supermarket which visits them once a week. They are provided with magazines in which advertisement for the new
product can

appear. Key success indicators such as penetration (the proportion of customers who buy the new product at least once) and repeat purchase (the rate at which purchasers buy again) can be found out. If the penetration is high but repeat purchase low,
buyers can be asked why they rejected the product after trail. Therefore, problems like packing and product formulation can be spotted. New products which perform badly can be eliminated at this stage. Test marketing involves the launch of the
new product in one or few geographical areas chosen to be
representative of its intended market. New product is sold into distribution outlets so that performance can be gauged face to face with rival products. The product is being promoted as it would be in national launch and consumers are asked to choose it against competitor products as they would if the new product went national. By projecting test marketing results to the full market, an assessment of the new product's likely success can be gauged. Test marketing does have problems.
Test towns and areas may not be representative of the national market and thus sales projections may be inaccurate. Competitors may invalidate the test market by giving distribution incentives to stock their product, thereby denying the new product shelf space. Test markets need to be long enough to measure the repeat purchase rate for the product. This can mean a delay in national launch
stretching to
many months and years. In the meantime more aggressive competitors can launch a rival product nationally and therefore gain pioneer advantage. Getting the cooperation of distributors is important.
Sometimes they refuse to take part in test marketing activities or charge heavy fee. The advantage of test marketing is that the information provided by test marketing facilitates the go / no go national launch decision. Sometimes a number of test areas are used with different marketing mix combinations to predict the most successful launch strategy. Its purpose is to prevent a costly and embarrassing national launch mistake. Test marketing is commonly used with FMCG goods. For very expensive equipments it is impractical. On global scale, companies roll out products from one country to another. They gain some of the benefits of test marketing in that the lessons learnt from an early launch in a country market can be applied to later launches. (viii) Commercialization and diffusion of innovation Choice regarding target market concerning to whom the product should be sold first and product positioning that will be attractive to the first target market has to be made. A starting point for choosing a target market is an understanding of the diffusion of innovation process. This explains how a new product spreads throughout a market over time. The process of adoption will be slower if the company targets the whole market in the initial phase of the launch as a large part of the market will

Self-Instructional Material 151 Overview of Product Management NOTES not be interested in the product or will be suspicious about it at this stage. A launch targeting the whole potential market will also be expensive compared to the adoption achieved. Customers feel comfortable in trying the new product when they find significant people possessing the product. Students will feel comfortable buying a text book when they find that the toppers of their class are using the same book. In every product category there would be customers who would know more about the product, or would want the best product, or would know more whether a certain product would work or not. The average customers look up to such savvy or knowledgeable customers for advice or reassurance. It is important to place new products in the hands of such people who act as references or guides for average customers. 8.7 ADOPTION PROCESS Not all people who comprise the market will be in the same state of readiness stage when the new product is launched. Different customers in the market will have varying degree of willingness to try something new. It is important that in the initial phase of launch the company targets customers who are more likely to buy the new product than others. The first set of customers who should be targeted are the ones who are most likely to buy the new product. These first buyers are called innovators. It is difficult to characterize innovators because they differ from one category to another. Market research has to be carried out to find innovators of a category. But in general, innovators are venturesome and they like to be different. They are willing to take chances with a new product. In consumer markets, they tend to be younger, better educated, more confident and more financially affluent and consequently can afford to take a chance of buying something new. In business markets, they tend to be larger and profitable companies with progressive and better educated management and they themselves have a good track record of bringing out new products. The set of customers who buy the product next are called early adopters. Early adopters need the comfort of knowing that someone else has taken the early risk and has bought and used the product. But they soon follow the lead. They need to be affluent and self confident to buy a product that has not yet gained market acceptance. Innovators and early adopters are opinion leaders i.e. they influence other people's views on the product. They have a major bearing on the success of the product. The popularize the products. Early and late majorities form the bulk of the customers. They are deliberate and cautious and they like to see the products prove themselves in the market before they are willing to buy them. The late majority are more cautious and even skeptical of the product. They adopt only when majority of people have tried the product before. Social pressures move them to purchase. Laggards are tradition bound. The innovation needs to be perceived almost as a traditional product before they buy. They are older and less well educated members of the population. The diffusion of innovation categories have a crucial role to play in the choice of target markets. The key is to understand the characteristics of the innovator and early adopter categories and target them at launch. Simply thinking about the kind of people or organizations who are more likely to buy the new product early after launch may be helpful but marketing research can help in precisely locating the innovators and early adopters. These categories can provide basis of segmenting the target market for an innovative product and target market selection. Diffusion curve can be linked to the product life cycle. At introduction, innovators buy the product followed by early adopters as the product enters the growth phase. Growth is fuelled by early and late majority, and stable sales during maturity phase may be due to repurchase of these groups. Laggards may enter the market during late maturity or even decline. The promotion designed to stimulate trial may need to be modified as nature of new buyers change over time. Check Your Progress 9. List the stages of new product development process.

152 Self-Instructional Material Overview of Product Management NOTES The choice of marketing strategy to establish a differential advantage has to be made. Understanding the requirement of innovators and early adopters is crucial. Since characteristics of customers affect the rate of adoption of an innovation, marketing's job is to identify and target those with high willingness to adopt upon launch. In the initial phase of the launch, the positioning of the new product should be for innovators and early adopters. The characteristics of the product being launched also affects diffusion rate. Its differential advantage compared to existing products affects the speed of adoption. The more added benefits a product gives to customers the more customers will be willing to buy. It will not help if the extra benefits are offset by costs. The innovation's compatibility with people's values, experiences, lifestyles and behaviours affects the speed of diffusion of a new product. Promotion showing opinion leaders accepting and using the product is important. Innovation's complexity affect the rate at which it is accepted: Products which are difficult to understand or use may take longer to be adopted. By making the later model more user friendly, marketers can hope to gain fast adoption among the large segment of the population. Divisibility is the degree to which the products can be tried without the risk of heavy financial loss. Marketers should devise launch strategies that allow low cost, risk free trial of more expensive innovations. A company can offer the product on lease or offer to take back the product if the customers do not find it useful or can arrange and manage a sharing arrangement between customers. The idea is to reduce the risk of customers in using the new product. The product's communicability also affects adoption of a new product. Adoption is likely to be faster if the benefits and applications of the innovation can be readily observed or described to target customers. If product benefits are long term or difficult to quantify then diffusion may take longer. The marketer must not assume that what is obvious to them will be clear to the customers. They need to devise a communications strategy that allows potential customers to become aware of the innovation and understand and be convinced of its benefits. Maturity Time Period Decline Profit Curve Sales Curve Growth Introduction PCL Diagram Sales and Profit 8.8 PRODUCT LIFE CYCLES (PLC) AND STRATEGIES A product is believed to go through definite life stages, in the same manner as living organisms do. They are first introduced in the market and customers accept the product if they find it serving their needs. Sales grow rapidly. Finally everyone who needs the product acquires it and sales plateau. At some stage, either the need that the product was satisfying ceases to exist, or a different solution to the need emerges. Customers stop buying the product and eventually the product ceases to exist. Check Your Progress 10. What are the different categories of customers in the product adoption process? Self-Instructional Material 153 Overview of Product Management NOTES 8.8.1 Stages of PLC The PLC is flexible and can be applied to both brands and product lines. The traditional PLC has four stages – Introduction, Growth, Maturity and Decline. Introduction The product is introduced in the market. Product's sales growth is low because customers are not aware of the product and even when they become aware of the availability of the product, they are not sure if the product will be useful to them. Losses are incurred because of heavy development and promotional costs. Companies monitor speed of product adoption and if it is disappointing, may terminate the product at this stage. Growth Growth is the period of faster sales and profit growth due to rapid market acceptance and repeat purchase. Customers become aware of the product and are convinced that the product is useful to them. Companies will have to spend substantially in production and marketing as they reach out to a larger number of customers and expand their manufacturing facilities to meet the rapidly growing demand. Availability of resources become a critical factor in this stage. Profit may decline at the later stage of growth stage as rivals enter the market attracted by fast sales growth and high profit potential. End of growth period may be associated with competitive shakeout, whereby weaker players cease production. Maturity In this stage all the customers who could have bought the product have already bought the product, resulting in a saturated market. Sales are largely driven by replacement purchases and population growth. Sales peak and flatten, hastening competitive shakeout. The survivors battle for market share by product improvements, advertising, sales promotion, dealer discount, and price cutting, resulting in lesser profit margins. Effective brand building is necessary as brand leaders are in the strongest position to resist pressure on profit margins. Decline Sales and profits decline as new technologies or changes in consumer tastes work to reduce demand for the product. Suppliers may cease production or reduce product depths. Promotional and product development expenditures are slashed and marginal distributors are dropped. 8.8.2 Strategies at Various Stages of PLC Introduction The company builds sales by expanding market for the product. It creates product awareness so that customers become aware of the generic product benefits. Customers are suspicious of the product's benefits and are not sure if it will serve their needs. Heavy expenditure on advertising and personal selling is essential. At this stage the product is fairly basic with emphasis on reliability and functionality, rather than having special features to appeal to different customer groups. Promotion should stimulate trial. Both advertisement and sales promotion schemes can be used. Price can be high as the company would be keen to recover the heavy development cost that the company incurs. The company can afford to charge high prices as there is no or very less competition. But low prices are helpful at this stage as customers consider a buying a low priced product less risky when they are not sure of its benefits.

86%	MATCHING BLOCK 95/151	W

Distribution can be patchy as some dealers will be wary of stocking the new product as they may not be sure of its acceptability by customers but it is very important to ensure adequate distribution of the product. Company's promotional programs build up awareness, 154

Self-Instructional Material Overview of Product Management NOTES

92%	MATCHING BLOCK 96/151	W

curiosity, and desire for the product but when customers do not find the product on the shelves, they tune out the product from their minds for a very long time. In fact, before the company starts its promotional blitz, it should ensure that the products are available on the shelves. They may have to provide extra benefits to wholesalers and retailers to stock the new product. Most new products fail due to lack of their availability rather than due to customers not wanting to buy the product.

Growth Customers are aware of

87%	MATCHING BLOCK 97/151	W

the product at this stage and are convinced that it serves their needs. Customers understand the generic benefits of the product and the company now builds sales and market share by building brand preference. The product is redesigned to create differentiation, and promotion lays stress on the benefits of the differentiated product. Focus is on ensuring repeat purchases. The company tries to achieve this purpose by focusing its efforts on building a strong brand. A strong build at this stage helps the company to fight competition as they emerge in hordes at this stage. There is pressure on prices due to entry of large number of competitors. At this stage different segments start emerging, and the company has to make

a

95%	MATCHING BLOCK 98/151	W

decision as to which of the segments it will attempt to serve. Some pioneers try to serve the whole market with one or a few standard products even when segments have clearly emerged. This is a mistake. Focused competitors will emerge, which will target specific segments and take away market share from each of the segments. Most pioneers lose their first-mover advantage by their attempt to indiscriminately serve all the segments as they did in the introduction stage. The pioneer should select a few lucrative segments and target those segments with separate offerings for each of them. Distribution will be widened to serve the new segments but channel intermediaries will now be interested in carrying the product. The product may have to be made available in different retail formats because customers of different segments buy differently. Therefore

a

100%	MATCHING BLOCK 99/151	W

product may have to be made available in company owned retail store, departmental store, and a discount store simultaneously.

Maturity

100%	MATCHING BLOCK 100/151	W

The market does not grow in this stage. The company should hold on to profit and market share rather than embark on costly competitive challenges.

Since a

96%	MATCHING BLOCK 101/151	W

company can gain sales only at the expense of competition, strong challenges are resisted by competitors and can lead to costly promotional price war. Brand objective now focuses on maintaining brand loyalty and stimulating repeat purchases. For all but the brand leader, competition may erode prices and profit margins. In this stage companies are tempted to engage in costly promotional price wars to wean away market share from competitors. But such victories are ephemeral. Most companies are not able to effect permanent shifts in market shares with promotional pricing. Therefore instead of trying to match promotional pricing schemes of competitors, the company should focus on strengthening its brand by differentiating its offering. In the maturity stage companies should realize that they cannot grow at the rate at which they did in the growth stage. Companies target unrealistically high growth rates, which is largely a hangover from their growth stage times. Such targets set the companies on the pernicious path of promotional pricing.

100%	MATCHING BLOCK 102/151	W

Companies in the growth stage should realize that the maturity stage will last for a long time and should put in place a low cost manufacturing and marketing infrastructure so that they are able to earn a descent return in the long maturity period. The company should target small, incremental growth rates which they should achieve by shifting customer preferences to their brands permanently by differentiating and strengthening their brands.

Self-Instructional Material 155 Overview of Product Management NOTES

94%	MATCHING BLOCK 103/151	W

Decline A company should anticipate the impending decline in sales. The biggest hurdle in adoption of suitable strategies for the decline stage is marketers' false belief that it is not coming or at least will not come so soon. The company should analyze changing customer requirements

or/and effectiveness

80%	MATCHING BLOCK 104/151	W

and acceptability of emerging substitute solutions to gauge the speed at which its product will become redundant. Sometimes the customers' requirements may have changed dramatically or the emerging solution may be very effective, so the company will have to make plans to exit the market immediately. Companies which make this assessment early will get a better value for the business when it tries to sell it, as the market may not yet be aware of the impending decline. At other times the customers' requirement may be changing gradually and/or the emerging solution may have bugs and may be slow to be accepted, therefore

the company

98%	MATCHING BLOCK 105/151	W

can plan a more gradual withdrawal. In general, failing sales may induce companies to raise prices and slash marketing expenditure. Brand loyalty will be exploited to create profits. Product development will be halted, product line depth will be reduced, and promotional expenditure will be reduced. Only the most profitable distribution outlets will be retained. 8.8.3

85%	MATCHING BLOCK 106/151	W

Uses of PLC z PLC emphasizes the need for product planning. There is need to replace old products with new ones. There is a need to analyze the balance of products. A company with all its products in the mature stage may be generating profit today but as the products enter decline stage, profits may fall. A nicely balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage, and there should be reasonable prospect of new product launches in

the

89%	MATCHING BLOCK 107/151	W

near future. Products should be viewed as interrelated set of profit bearing assets that

need to be managed as a group. z A company that introduces a new to the world product

95%	MATCHING BLOCK 108/151	W

may be in very powerful position early in the PLC. It may charge a very high price during this period of monopoly supply. But unless the product is patented, competition will enter during growth phase and make it difficult for the pioneer to charge high prices. Customers

get angry when they find the pioneer reducing their high prices due to competitive pressures. They feel that the company has charged them a

85%	MATCHING BLOCK 109/151	W

high price when they could afford not to. A company which understands concept of PLC will realize and estimate the eventual entry of competitors, and will take that into account when they shape their early strategies of market entry. In fact, smart pioneers will price the

products at a low price so
the potential competitors do not consider

91%	MATCHING BLOCK 110/151	W

the market attractive enough to enter it. If pioneers decide to be content with low margins, they can keep off competitors, at least those

which

96%	MATCHING BLOCK 111/151	W

pursue markets purely for profits and do not have strategy and preference for entering new markets. Genuinely interested competitors will still enter the market but they will be there for the long haul and their strategies and moves will be more predictable and manageable.

z

93%	MATCHING BLOCK 112/151	W

Companies have to face the fact that products need to be terminated and new products developed to replace them. Without this sequence a

96%	MATCHING BLOCK 113/151	W

company may find itself with a group of products all in decline stage of

the

93%	MATCHING BLOCK 114/151	W

PLC. z PLC reminds managers that growth will end and suggests the need for caution when planning investment in new production facilities.

z Changes in market and competitive conditions between PLC stages suggests that marketing strategies should be adapted to meet them.
156 Self-Instructional Material Overview of Product Management NOTES 8.8.4 Limitations of PLC z Not all products follow the classic S-shaped PLC curve. The sale of some products rise like a rocket and then fall like a stick (fad). Other products (and brands) do not enter the decline stage for a very long time. Some products have been in the maturity stage for a very long time and the decline stage seems nowhere in sight. Some brands have shown reluctance to follow the traditional PLC. Marketers have continually reinvented them, putting them on the growth trajectory time and again. z PLC is the result of marketing activities, and is not the cause of variability in sales. It is simply a pattern of sales that reflects marketing activity. Sales of a product may flatten because it has not received enough marketing attention, insufficient product redesign or lack of promotional support. Using the PLC may lead to inappropriate action (dropping the product) when correct response would be increased marketing support. z The duration of PLC stages is unpredictable. It is not possible to predict when maturity or decline will begin. z Strict adherence to PLC can lead a company to misleading objectives and strategy prescriptions. There can be circumstances where appropriate marketing objective in the growth phase is harvest (in face of intense competition), in maturity stage to build (when a differential advantage can be developed) and in the decline stage to build (where there is opportunity to dominate). Marketers must monitor the real changes that are happening in the marketplace before setting precise objectives and strategies . 8.8.5 Managing Brand and Product Line Portfolios
Many companies are multi-product companies, serving multi markets. Some of these products are weak and others are
strong. Some products will
require investment to finance their growth, others will generate more cash than they need. Companies must decide how to distribute their limited resources among competing needs of products to achieve the best performance for the company. Management needs to decide which brands/product lines to build, hold or withdraw support. The process of managing groups of brands and product lines is called portfolio planning. Boston Consulting Group
Growth Share Matrix (BCG MATRIX) z
A company operates in various businesses or markets. Each of its businesses operate in different conditions. The corporate has to realize that each of its businesses will earn different amounts of profits and will require different amounts of investments.
The corporate
should learn to expect different amounts of profits from its different businesses and should invest in them depending on their requirements.
z
In the BCG matrix, market growth rate is shown on
the vertical axis and indicates the annual growth rate of the industry in which each product line operates. It is used as a proxy for market attractiveness, i.e., higher the growth rate, more attractive is the industry to do business in.
z
Relative market share is shown on the horizontal axis and refers to the market share relative to the largest competitor. It acts as a proxy for competitive strength.
z
Cash flow is dependent on the box in which a product falls. Stars are market leaders and
earn high revenues but require substantial investments to finance growth and
to meet competitive challenges. Overall cash flow is therefore likely to be roughly in balance.

Self-Instructional Material 157 Overview of Product Management NOTES Stars 7% High Market Growth Rate Relative Market Share BCG Diagram Low 15% 0% 10 1 0 Problem Children Dogs Cash Cows
Problem children are products in high growth markets which cause a drain on cash flow as
they incur huge marketing expenditure in reaching out to growing number of customers. They also incur costs in setting up new manufacturing units to be able to serve the growing markets. But they are low share products and therefore, do not generate much revenue. Overall, problem children
are big cash users.
Cash cows are market leaders in mature, low growth markets i.e. investment in new production facilities and marketing is minimum. High market share leads to large revenues and hence, positive cash flow. Dogs also operate in low growth markets but
have low market share and therefore, earn low revenues.
Except for some products near the dividing line between
cash
cows and dogs,
most dogs produce low or negative cash flows. Strategic objectives Stars The business is in a market which is growing rapidly. Stars are leaders in their markets but they have to be focused on building sales or market share. Resources should be invested to maintain and increase leadership position. Competitive challenges should be repelled. If the market share falls, a star can be
changed into a problem child. Eventually the growth rate of the market will decline and the star
will be changed to cash cows. Therefore stars should be protected as
they are the cash cows of the future. A company can be lavish with its stars as it will provide profits for a long time. Problem children The market is growing at a high rate but the market share is low. The choice is to increase investment and build market share to turn it into a star, or to withdraw support by either harvesting (raising prices while lowering marketing expenditure) or divesting (dropping or selling) or to find a small market segment where dominance
can
be achieved (niche). Since the market is growing rapidly, such a company will require lot of investment even to stay in the same position. Therefore a company has to make a swift decision. It has to pump in resources to convert it into star or the business should be dropped. The company cannot afford to keep a problem child in its position for a long time. It will gobble up huge amount of resources and turn no profits. Cash cows The market is growing at a slow rate
and
business is the market leader. Expenditure can be controlled as the business does not need to spend on new manufacturing facility or reaching out to new customer segments. But the revenue is high due to high market share. Therefore cash cows earn high profits. The company's objective should be to hold sales and market share. If the business fails to hold on to its market share, it will be converted to dog.
158
Self-Instructional Material Overview of Product Management NOTES
Since cash cows earns profits for the company, it will be tempting to make investments in modernization of manufacturing facilities and in sophisticated branding exercises. The company should avoid any investment in excess of what is required to maintain the market share and keep on increasing it incrementally. Excess funds should be used to fund stars and problem children. Dog The market is growing at a slow rate and the market share of the business is low. The business does not earn profits. The company should look as such a business closely to find out if the business has enough remnant strengths to be converted to a cash cow by making appropriate investments. Normally one or a few elements of such businesses are weak. A business may have a good brand image but it may have outdated manufacturing facility, so the business can recover if investments are made in the upgrading of the manufacturing facility. A business classified as dog should not be an automatic candidate for closure. It may also be possible to reposition the product into a defendable niche. But if the business is weak in many facets, the company should take swift action to retrieve as
of
much cash as possible from the business. For such dogs, the appropriate strategy will be to harvest to generate a positive cash flow or to divest and invest somewhere else. Maintaining a balanced product portfolio The portfolio is unbalanced when there are too many problem children and dogs, and not enough stars and cash cows. Enough investments should be made in cows so that they are able to maintain their market share. One or two problem children should be invested in. Most companies will not have enough resources to invest in many problem children. Stars should continue to receive adequate support. The aim should be to build existing stars and build market share of chosen problem children. Dogs should be harvested or divested, if it is believed that
it cannot be resurrected. Criticisms of the BCG matrix z

The assumption that cash flow will be determined by a product's position on the matrix is weak. Some stars will show a healthy positive cash flow as will some dogs in markets where competitive activity is low.
z
Treating market growth rate as proxy for market attractiveness and market share as indicator of competitive strength is over simplistic. Other factors like market size, brand strength are also important. z When competitive retaliation is likely, cost of share building outweigh gains. Therefore excess stress on market share may be harmful. z The analysis ignores interdependence among products. A dog may complement a star. Customers may want a full product line. Dropping a product because they fall in a box may be naïve. z Some products have a short PLC and profits should be maximized in the star stage instead of building them.
z
Competitors' reactions are not assessed. When a company makes investments to build market share of a problem child, the incumbent stars are going to react. The suggested strategies for the businesses in each quadrant are simplistic and do not account for market dynamics and competitor reactions. z The matrix does not define a market, i.e., the whole market or a segment. There is vagueness about the dividing line between high
and
low growth markets. A chemical plant may use 3% as the dividing line, whereas a leisure goods company may use 10%.
z
The matrix does not identify which problem children to build, harvest or drop.
Self-Instructional Material 159
Overview of Product Management NOTES 8.8.6 Product Strategies for Growth Ansoff's matrix
With immense pressure to grow market share and profits, marketers are always on the lookout for ways to grow their businesses. Marketers have four variables to play with – existing market, new market, existing product, and new product. Using these four variables a company can have four strategies to pursue. They can increase their business by serving new products in their existing markets, existing products in new markets, new products in new markets, or existing products in existing markets.
The growth strategies z Market
penetration: Attempt increased penetration in the existing market with the existing products. Brand building is one method. Existing customers may become more brand loyal (less switching), new customers may buy the brand, existing users may use the product more often and in greater quantity. z Product development: Improve present products or develop new products for current markets. By improving style, performance and comfort, the aim is to gain higher sales among its present market.
z
Market development: Current products are sold in new markets. The company may move into new geographic markets or move into new market segments.
z
Diversification: New products are developed for new markets. This is risky. But if there is synergy between existing and new products this strategy is likely to work. 8.8.7
Product Recalls Managing product recall requires meticulous planning in advance to ensure prompt action. Placating the customer and maintaining brand image are important objectives for a company while handling recalls. Companies take all possible precautions to ensure that products that reach customers are of good quality and are safe. But still customers discover problems in the products they have bought. If companies do not react promptly and appropriately, there can be severe backlash and legal complications. Though this does not happen often in the lifetime of a company, it should always be ready to handle product recalls. An ill-managed product recall can destroy a brand or even a company. Smart companies have a well-crafted strategy for handling product recalls. The company should understand the importance of always being ready for a product recall. Employees should understand the link between recalls and customer satisfaction and safety, and the effect of the recall on company success. The company should check if the company is suffering from "kill the messenger" culture that prevents news of product problems from reaching the right people. The overall responsibility for product recalls should be assigned to one senior executive. He could be the chief of marketing. The recall manager should ensure the development and regular review of a recall manual that delineates the company's policies and guidelines in the event of a recall. A recall should be seen as a task to use marketing skills to retrieve the products from the customer. The recall manager will have to identify key managers throughout the organization who might have a role in the recall. It may be necessary to enlist the help of people outside the company. In the event of a recall, the recall manager should appoint a response team to manage the recall on a daily basis. The response team comprises members who were earlier identified by the recall manger from various areas in the company. The first task of the response team is to gauge the seriousness of the situation. Such an evaluation will help them determine the speed and the type of response required, and will be particularly useful when there is

160 Self-Instructional Material Overview of Product Management NOTES risk of customer injury or illness. After the team evaluates the situation, it should determine the scale of response and the type of recall to be adopted. The situation may require a full recall, a repair or retrofit offer, an optional recall, an offer to exchange the product, issue an advisory, refute the charges or a change in the production and distribution of the product. It is critical to arrive at a decision regarding the recall quickly, but the decision does not necessarily have to mean taking action. A recall made too soon can give credibility to unsubstantiated charges. Issuing a recall amounts to admitting that there is a problem and may open the door to a flood of lawsuits. The response team should weigh all these factors carefully before arriving at a decision. The recall manager should identify major stakeholders, besides customers, like distributors, dealers, service centers and keep them abreast of the company's plans and actions as the recall unfolds. It is important to build the organization's credibility among these stakeholders in the anticipation of a recall. The crisis-management team of the company should handle the communication effort on all the fronts. If the response team concludes that a recall action is warranted, it should get into the act fast. It should decide who will make the announcement, when, and what he will say. It also has to coordinate the field response program. It has to decide as to who will accept the faulty products, how the returned products will be monitored and who will provide the repairs or replacements. During the recall, the response team should keep customers properly informed and persuade them to complete the necessary exchanges. Customer communication can reinforce the company's image as a prompt and responsible organization. They can also plan a especially designed recall advertisement. The logistics and information system should have the ability to accept notification of product defects. It is important to provide a toll free customer service line operated by people who understand how to react and who know whom to report to if a customer calls to tell that his product is faulty. Sensitive customer service personnel can help a company become aware of a problem early. The logistics and information systems should be able to handle the recall as well as its normal operations. The pipeline for products and parts has to accommodate a two-way flow of inventory as the company pulls in units to repair or replace even as it continues to release new or substitute models. During the recall, the logistics and information systems should be able to trace any product that they have handled. The system should be able to isolate a product defect by batch, plant, process or shift through use of identifiers such as serial numbers. The response team should have a plan to bring the recall to a satisfactory close, say, when a given percentage of distributed units have been returned. After the recall, communication should focus on restoring and strengthening the company's reputation in the market, particularly regarding the product in question. The public relations department should lead the effort in restoring confidence in the product and the company. A reintroduction plan should be developed and implemented with the participation of people who originally designed and launched the product. There will have to be a relaunch marketing effort to reassert brand image. But a recall should be avoided. Products should be very rigorously tested for all possible defects and safety hazards before being released in the market. Though a company should always be ready for handling a recall, it should take all possible precautions to ensure that it does not have to handle one. 8.9 BRANDING Branding is the process by which companies distinguish their product offerings from competition. Marketers develop their products into brands which help to create a unique position in the minds of customers. Check Your Progress 11. List the stages of the product life cycle. 12. What can PLC be used for?

Self-Instructional Material 161 Overview of Product Management NOTES 8.9.1 Understanding a brand z

A brand is not a name, term, sign, symbol, or any combination of

these. A brand is an assurance or guarantee that the product will perform as the customer thinks it should, which means that the brand has already shaped the expectations of the customer about itself. The brand embodies some values that remain consistent over a period of time. The customer expects these values to be delivered to him during each encounter he has with the brand. Therefore, the company must realize that building a brand is not a short term activity. Consistency is the most valued quality of a brand. It takes a long time to build a consistent brand image, and it is extremely hard to sustain this image. After a period of consistent performance, the brand is in the customer's memory as an accumulation of associations. These associations are summations of the customer's interactions with the brand over a period of time.

z

Branding should be an indispensable activity of any organization. However, it is imperative for organizations to remember that branding is only an outcome of various other activities in an organization. A brand is an external manifestation of what happens inside the organization. It is important to align all activities in an organization, and behaviors of all employees towards the values embodied in the brand. Many companies believe that branding only comprises the product and communication. Hence, it is also believed that branding is the responsibility of the marketing department only. It is the duty of every department and each individual to shape the perception of the customers in sync with the desired brand values. Every department and individual of the company has to identify as to how he will contribute to shaping the perceptions of the customers. Branding is too important to be the sole prerogative of marketing department.

z The

sole purpose of branding is to create differentiation, and the brand name by itself cannot act as a differentiator. The brand as a label merely acts as a distinguished name to convey this differentiation. Therefore, the brand is the culmination of all activities of the organization. The brand name conveys the set of values and attributes embodied in the brand. As soon as a customer hears the brand name the attributes and values of the brand should conjure before his eyes like a motion picture. This can only happen if the brand has lived its values for a long time. Strong brands just cannot be created overnight. Human behavior is inherently distrustful. A brand has to live up to its promises consistently before customers start taking its values and attributes for granted. z The strength of the brand is directly proportional to the expectations of the customer about it. Therefore, the first task of branding should be to raise customer expectations about the product. The communication efforts of the company do raise expectations and thus contribute to branding, but personal usage of the product by the customer or recommendations from a personal source are decisive sources for raising expectations. It means that ensuring that the product performs well is the most important branding exercise. But companies have to exercise some caution. In an effort to raise expectations about the brand, a company may hype the brand in its communications effort and customers can form exaggerated expectations from the brand. If the brand does not deliver the heightened expectations of the customers, customers are disappointed and they can tarnish the image of the brand by talking badly about it. Such a brand will find it difficult to be accepted until the market forgets the fiasco. Any renewed bout of advertising will only enhance the cynicism of the customers towards the brand. The company should wait for a considerable period of time before renewing the effort to arouse expectations among customers again. But if the company is too conservative in making claims, customer expectations would not be aroused and they will not buy the brand. It is a delicate balance but companies will have to manage it. The communication efforts of the company should arouse just enough expectations among customers that they become interested in buying the brand.
162 Self-Instructional Material Overview of Product Management NOTES And when the brand delivers more than what the customers expected they spread positive word-of-mouth, thus starting the spiral of "moderate expectation-superior delivery" which will ultimately create a strong brand. z One interaction alone cannot build or tarnish the brand image, unless it is particularly strong. The whole idea of giving consistent performance is that if once in a while the brand does not perform up to expectations, customers do not start feeling negatively about the brand. Customers should be willing to give benefit of doubt to the brand if its performance slips once in a while. It is very important that a brand owns up to such one-time lackluster performance and promises to make amends. A brand which chooses to remain in a state of denial or ignorance about its bad performance gives the signal that the brand no more cares about living the values embodied in the brand, and nor does it care about customer sentiments. It is usually useless arguing against customers. Customers will interpret a brand's performance in their own way and the company's interpretation of the situation has no relevance to the customer. Instead of arguing against customer's interpretations of the brand's performance, a company should try to understand the process by which the customer arrived at the interpretation. This would often include an impartial assessment of the brand's performance and the customer's existential situation in which he was using the brand. A customer should never be allowed to have a perception about the brand which is different from the perception that the company wants its customers to have. A company's first task is manage the perceptions of customers about the brand and not let customers develop their own perception. Every activity of the company should be assessed in terms of its influence on customer's perception about the brand. 8.9.2 Brand Attributes A successful brand has several essential attributes. The presence of most of these attributes can guarantee long term eminence of the brand. The world's strongest brands have the following attributes: z The brand provides the benefits that customers desire. Customers buy a brand because its attributes, its image, its service and many other tangible and intangible factors create an attractive whole. Sometimes customers cannot even verbalize what they actually want. They feel the brand is just right for them. Starbucks gives a complete experience to the customers through the aroma of the beans, the rich taste of the coffee, the product displays, the attractive artwork on the walls, the contemporary music playing in the background and the cozy, clean feel of the table. z The brand stays relevant. Brand equity is tied to both the actual quality of the product or service and to various intangible factors. Those intangibles include the imagery related to the type of person who uses the brand, to the type of situations in which the brand is used, to the type of personality the brand portrays (sincere, exciting, competent, rugged), to the type of feeling the brand tries to elicit in customers (purposeful, warm), and to the type of relationship it seeks to build with its customers (committed, casual, seasonal). Strong brands stay on the leading edge in the product arena and tweak their intangibles to fit their times. Gillette always employs superior technology, and its long-running ads, "The best a man can get" are tweaked to reflect contemporary times. Besides advertising, customers' perceptions of a company as a whole and its role in the society affect a brand's strength as well. Their advocating some social cause helps. z The pricing strategy is based on consumers' perception of value. The company has to arrive at the right blend of product quality, design, features, and price. Value pricing should not be adopted at the expense of essential brand-building activities. There is nothing intrinsically right or wrong with low or high price. Whatever price the company decides to charge, it should be able to demonstrate that customers are deriving value from it in proportion to the price they are paying.

Self-Instructional Material 163 Overview of Product Management NOTES z The brand is properly positioned. Successful brands keep up with competitors by creating points of parity in those areas where competitors are trying to find an advantage while at the same time creating points of difference to achieve advantages over competitors in some other areas. They are similar to and also different from competing brands in certain reliably identifiable ways. Sony holds clear advantages in product superiority and matching competitors' level of prices. The task is much more difficult when a brand spans many product categories. The mix of points of parity and points of difference that works for a brand in one category may not be right for the same brand in another category. z The brand is consistent. Maintaining a strong brand means striking the right balance between continuity in marketing activities and the kind of changes needed to stay relevant. The brand's image should not get muddled by a spate of marketing efforts that confuse customers by sending conflicting messages. z The brand portfolio and hierarchy should make sense. Companies create and maintain different brands for different market segments. Single product lines are often sold under different brand names, and different brand names within a company hold different powers. The Gap's brand portfolio provides maximum market coverage with minimal overlap. Banana Republic serves the higher end, the Gap brand covers the basic style- and-quality segment, and Old Navy serves the mass market. Each brand has a distinct image and its own source of equity. Brands at each level of the hierarchy should contribute to the overall equity of the portfolio through their individual ability to make consumers aware of the various products and foster favorable associations with them. Each brand should have its own boundaries. It is dangerous to cover too much ground with one brand or to overlap two brands in the same portfolio. z The brand makes use of and coordinates a full repertoire of marketing activities to build equity. Strong brands mix and match trademarked marketing elements like logos, symbols and signage to perform brand related functions like enhancing or reinforcing consumer awareness of the brand or its image and to protect the brand both competitively and legally. Marketing activities play specific roles in building brand equity. Advertising is used to create consumer demand for a given product. Trade promotions are designed to push products through distribution. A brand should make use of all its resources and should ensure that the essence of the brand is the same in all its activities. z Brand managers understand what the brand means to consumers. Managers of strong brands understand the totality of their brand's image, i.e., perceptions, beliefs, attitudes and behaviors customers associate with their brand. If it is clear what customers like and do not like about a brand, and what core associations are linked to the brand, then it will be clear whether any given action will synchronize with the brand or it will create friction. Bic was very successful with its non-refillable ball-point pens, disposable cigarette lighters and disposable razors but when it used the same strategy for marketing perfumes, the effort was unsuccessful. Bic had developed an utilitarian and impersonal image with its earlier offers. But this image did not gel with marketing of perfumes which is tied to customers' emotions. In contrast Gillette has been protective of the name carried by its razors, blades and associated toiletries. The company's electric razors use the Braun name and its oral care products are marketed under the Oral B name. z The brand is given proper support, and that support is sustained over the long run. A firm foundation for brand equity requires that customers have the proper depth and breadth of awareness and strong, favorable, and unique associations with the brand in their memory. Brand managers should not resort to shortcuts and should follow all the brand building exercises starting from those which will achieve the necessary level of brand awareness to those which will build an image of the brand. It is also necessary that there is no complacency once the brand has become strong. The company should

164 Self-Instructional Material Overview of Product Management NOTES maintain a level of brand building activities, especially a descent level of advertising, for all times. z The company monitors various sources of brand equity. A company should periodically conduct audit of its brands. A brand audit is an exercise designed to assess the health of its brand. It consists of detailed internal description of exactly how the brand has been marketed and a thorough external investigation, through focus groups and other consumer research, of exactly what the brand does and could mean to consumers. Finding out customers' perceptions and beliefs uncovers the true meaning of a brand and reveals where corporate and consumer views conflict. It shows the company where they have to refine or redirect their branding efforts. Building a strong brand involves maximizing all these characteristics. But in practice it is difficult, because in many cases when a company focuses on improving one, others may suffer. The idea should be to know the brand's performance on all the attributes and then to evaluate any marketing activity from all possible perspectives. 8.9.3 Types of Brands z Manufacturer brands They are created by producers and bear their chosen brand name. The responsibility for marketing the brand lies with the producer. Most manufacturer brands are supported by massive advertising budgets. They also have to manage long distribution channels to reach the final customers. The producer is an expert in designing and manufacturing the product. Though the producers may eventually become great marketing organizations, like Proctor & Gamble and Unilever have, their main prowess lie in technologies and processes underlying the product. A manufacturer brand is likely to be more advanced and may have more innovative features than other brands in its category. z Own label or distributor or store brands They are created and owned by channel intermediaries. Most of these brands are owned by big and powerful retailers. The retailers do not manufacture these brands and may not have any knowledge about the underlying technologies and processes of the product. Retailers almost completely outsource manufacturing. Since retailers are in contact with customers they can give very important information about the likings and disliking of customers, which the manufacturers of distributor brands can incorporate in the products they manufacture for the retailer. The prestige and power of the brand is dependent on the brand equity of the retail store. The retail store is the main brand. The retailer gives preference to his brands in placement of products on the shelves. The retailer does not need to promote the brand very extensively and mostly resorts to in-store promotions, and promotions in the local media. Since the retailer does not incur much distribution and promotion costs, the retailer brands can be sold cheaper than comparable manufacturer brands. For a very long time customers believed that retailer brands do not match the quality levels of the manufacturer brands. This had some linkage to the lower prices at which retail brands were sold as compared to manufacturer brands in the same product categories. Retailers worked on the quality of their brands to change customer perceptions. Now even premium brands in some categories are retailer brands. Instead of considering the business of own label brands anciliary to the main business of retailing, some retail chains see this as important part of their business and an important contributor to their revenues. Customer perceptions about retailer brands have changed to the extent that they find the prices of the manufacture brands too high compared to those of retailer brands, whereas they find the quality of the two to be comparable. Customers have become sophisticated enough to understand that the reason for lower prices of retailer

Self-Instructional Material 165 Overview of Product Management NOTES brands is the lower cost incurred by retail chains in distribution and promotion and not because they are of lower quality. The power of low price of own label brands has forced many producer brands to introduce so called fighter brands or their own low price alternatives to retailers' brands. A major decision that producers have to face is whether to agree to supply own label products for retailers. The danger is that should customers find out, they may believe that there is no difference between manufacturers' brand and its equivalent which is being produced by the manufacturer, but being sold under the brand name of the retailer. For some producers supplying own label goods may be a means of filling excess capacity and generating extra income. But manufacturers should view manufacturing for distributor brands as a more strategic decision. They should see it as an opportunity for cementing their relationship with retailers. They can choose to manufacture those retailer brands which are in alignment with their operations strategy and from whose manufacturing they can learn something which they can apply in making their own brands better. If they do not manufacture, someone else will, but by being in the loop of distributor brands they will have a better idea of the strategies being employed by the retailers and how they can counter it. 8.9.4 Brand Building Core benefits derive from core products. Toothpastes clean teeth. But all toothpastes do that. Branding allows marketers to create added values that distinguish one brand from another. A brand is created by augmenting a core product with distinctive values that distinguish it from competition Brand building involves deep understanding of both functional and emotional values that customers use when choosing between brands. Brands are built by a combination of seven factors: z

Quality Building quality into the core product is vital. The core product must achieve the basic functional requirements expected of it. Higher quality brands achieve greater market share and higher profitability than their inferior rivals. It is important to understand as to how

the

customers judge the quality of a product. Most customers do not do detailed evaluations of the performance of the product when they buy. They categorize a product to be of high quality when they find it performing well on the parameters that are important to them or when the product performs well on the parameters that they understand well. Customers rely on cues to determine the quality of the product. A company should provide exaggerated performance in those product attributes which customers use to judge the quality of the product. z Positioning Creating a unique position in the marketplace involves the careful choice of target market and establishing a clear differential advantage in the minds of these customers. This can be achieved through brand name and image, service, design, guarantees, packaging and delivery. Unique positioning will require a combination of these factors. Viewing markets in novel ways can create unique positioning concepts. Positioning is an opportunity for the company to communicate to customers as to what it strives to achieve for them, i.e., functional needs, and what it wants to mean to them, i.e., emotional needs. Unfortunately customers' functional and emotional needs vary widely and one positioning plank will not be attractive to the whole market. A brand which wants to achieve very specific things for its customers and wants to mean just a particular thing for them will only have a small segment of customers who will be attracted to the brand. The rest of the customers would not find the brand useful. It is always tempting to dilute a brand's positioning to make it attractive to a large segment.

A company should resist this temptation. A brand focused on the functional and emotional needs of a small set of customers will be more successful in fetching a premium price as it will be greatly valued by its target market. A focused brand is more likely to enhance its value proposition than a less focused brand because the focused brand knows very precisely what it has to achieve for its target market, and puts its resources to achieve it. A less focused brand will dissipate its resources in trying to serve varied needs of too wide a segment. z Repositioning As markets change and new opportunities arise, repositioning is needed to build brands from their initial base. A successful brand may be rendered irrelevant if needs and circumstances of customers in its target market change. If this change is gradual and perceptible, the company can change its offerings and communications gradually and manage to keep itself acceptable to the target market. But if the change is sudden and the company finds itself out of tune with its market all of a sudden, the company has two options. It may start targeting a different market where its positioning plank is still relevant, or changes its offerings and communications drastically to make itself relevant to its original target market again. But companies have been guilty of changing their positioning planks unnecessarily and far too frequently. A decision about the positioning of brand should be strictly dependent on the choice criteria of customers and the capability of the company. A company should arrive at a positioning strategy after conducting thorough research of customers' choice criteria and an audit of its resources and capabilities. A positioning plank is a reflection of the company's ability to serve a single or few elements of the customers' choice criteria. The capability of a company and choice criteria of customers do not change as frequently as companies change their positioning. A company which repositions its brand frequently confuses its customers about what it is really capable of achieving and being. The brand loses its credibility among customers in the target market. z Well balanced communication Brand positioning shapes customer perceptions. A brand needs to communicate its positioning to its target market. Awareness needs to be built, brand personality projected and favorable attitudes built and reinforced among customers. The brand theme needs to be reinforced by advertising, salespeople, sponsorship, public relations and sales promotion campaigns. Companies have often relied on advertising in the mass media to communicate brand positioning. While some amount of advertising may be necessary to get the target market's initial attention, advertising in the mass media is too impersonal and ephemeral for building a relationship between the brand and its customers. The purpose of brand communication is to make customers feel attached to the brand. The ultimate purpose is that customers should start considering the brand to be an important part of their being. For such an attachment to develop, customers have to participate physically and emotionally in the activities and celebrations of the brand. The company has to provide opportunities for such participation to customers. Sponsoring an event about which customers feel very strongly will move the brand closer to the customer. Joint participation of customers and the brand in some social cause also cements the relationship between the two. Public relations campaign celebrating the contribution and successes of customers rather than extolling the company's achievement will make customers feel proud of their association with the brand. Whenever customers come in contact with the company, the contact employees should be living the brand values during their interaction with the customers. The idea is that the company should be relentless in communicating its brand values to its target market and never miss an opportunity to impress customers about what it stands for and what it can do for them.

Being first Pioneer brands are more likely to be successful than follower brands. Being first gives a brand the opportunity to create a clear position in the minds of target customers before competition enters the market. It gives the pioneer the opportunity to build customer and distributor loyalty. But it requires sustained marketing effort and the strength to withstand competitor attacks. The pioneer gets an opportunity to shape expectations of the customers about the product category. If the pioneer is uncontested in the market for a considerable period of time, the pioneer's product becomes the benchmark against which products of late entrants will be evaluated. The pioneer gets time to know the needs of the customers and develop capabilities to serve those needs. The pioneer should develop positioning focused sharply on the needs of a segment. so that late entrants do not find unmet needs to target among customers of its target market. Most pioneers cannot resist the idea of serving the whole market and make the mistake of targeting the whole market by very diffused positioning. Pioneers serve the whole market successfully with a compromise product for some time, but late entrants are able to discover segments with needs that the compromise product is not serving. Late entrants carve out segments from these unmet customer needs. Late entrants change the structure of the market from one big market with supposedly uniform needs to a market consisting of many segments, each with a different set of needs. The pioneer may find that its compromise product is not particularly suitable for any segment and the mass market in which the compromise product was acceptable is no more there. Pioneers should resist the temptation of serving the whole market with a common product. It should focus on a particular segment of the market in very early phase of market development, or identify segments and serve them with different products positioned differently from each other. It is suicidal for pioneers to allow late entrants to discover segments in the market.
z
Long term perspective Generating awareness, communicating brand values and building customer loyalty takes many years. There must be a consistent high level of brand investment. If investment is cut, sales are unlikely to fall substantially in the short term, but it will erode brand equity in terms of awareness levels, brand associations, intentions to buy etc. Customers fondly remember brands which may not have sold for years. In fact, some of the customers refuse to believe that the brand is not selling. Customers grow up and live with their favorite brands and though they may not be able to verbalize their relationship with their favorite brands, they are always there in their memory. Companies should remember that there is nothing short-term about a brand, because the strength of a brand is dependent upon the strength of association between the brand and its customers. This association or any association for that matter, takes time to build. The brand has to establish credibility and trust with consistent performance and behavior before customers start associating with it. And companies have to ensure that this trust is not breached. Therefore a company has to invest in the brand building process for a long time. But the payoff is also for a long time. Long after the company has stopped promoting the brand, customers continue to buy it. Investment in a brand never goes waste. If a company has some extra resources about which it is not sure where to invest, it should go ahead and invest
it in strengthening its brand. z
Internal marketing Many brands are corporate brands, i.e., the marketing focus is on building the company brand. Most service brands are marketed as corporate brands. Training and communicating with internal staff is crucial because service companies rely on personal
168 Self-Instructional Material
Overview of Product Management NOTES
contact between service providers and service users. Brand values and strategies must be communicated to the staff. Whenever customers come in contact with the company, they should experience the values embodied in the brand being played out in real. For such an experience to take place, employees should understand as to what type of interaction will reinforce the customers' convictions in the brand. All employees should know what customers expect from the brand and try to fulfill those expectations. All employees should be explicitly told about their roles in the brand building exercise and they should be expected to perform these roles. 8.9.5

Brand Name Strategies The task may look frivolous but a choosing a brand name is a very serious business. The company also has the option of using a single brand name for all its products, or it can have separate brand names for all its offerings, or it can combine two names when branding an offering. z Choosing a brand name Brand names should be chosen carefully since names convey images. A good brand name should evoke positive associations, be easy to pronounce and remember, suggest product benefits, be distinctive, use numerals when emphasizing technology, and should not infringe on an existing registered brand name. Brand names should be chosen with lot of foresight. Brand promoters should expect their brand to last for eternity. They should have a clear idea about how they want the brand to evolve and what they want it to become. Allowing the brand name to reflect themes which are in vogue now but which cannot be expected to be popular forever is a bad idea. If a brand name strongly reflects its association with a product category, the brand promoter will find it difficult to extend the brand name to a different category in future. Similarly if the name strongly reflects a product's characteristics, it will be difficult to reposition the brand if such needs arise. The idea is that the name should not become a constraint in the brand's evolution or its planned life cycle. If the promoter is not clear about how the brand will evolve, such a brand name should be chosen which does not evoke any meaning related to either the product category it is currently part of, or its current customers. Having "XYZ" as a brand name is really not a bad idea if the promoter is undecided about the brand's future. But if the promoter has definite plans for the brand, then he can commit the brand name to something more definitive either reflecting product's characteristics or customers' unfulfilled needs. z Family brand name A common brand name is used for all the products of the company. The goodwill attached to the family brand name benefits all brands and the use of the name in advertisement of one brand helps the promotion of all the brands carrying the family name. The risk in this strategy is that if one of the brands receives unfavorable publicity or is unsuccessful, the reputation of the entire range of products containing the brand name can be tarnished. Though the strategy has been successfully followed by many companies, there are fundamental flaws in the strategy. A brand has strong relations with the category it belongs to. In fact, it has to first establish itself as belonging to the category before it starts differentiating itself from its competitors. So effective branding is about creating points of parity and points of differences with the competitors of the product category it is a part of. When a company uses a family name it loses some leverage in establishing parity and promoting differences with its competitors because the family brand name carries baggage of its association with other product categories. A company using a family brand name has to ensure that the family brand name is associated with only generic

Self-Instructional Material 169 Overview of Product Management NOTES characteristics like quality, reliability, etc. When the company uses the family brand name for entering a new category, it should promote aggressively to establish points of parity and then points of difference with its competitors in the new category. Companies using family brand names do not promote aggressively to establish their positioning plank among customers. They believe that since customers are already aware of the brand name, they have an easier task promoting the brand values among customers. They are wrong. Sometimes the reverse may be true. Because the family brand name already has association with other categories, customers may already have some opinion about the brand. These opinions may not necessarily be negative but they may definitely not be the ones that the company would like customers to have about the brand in the new category. Such opinions have to be erased from customer minds before new ones can be established. The idea is that inspite of having a family brand name which is well- known, the company has to promote aggressively to position the brand afresh when it enters a new category with the family brand name. If however the associations that have to be attached to the brand in the new category are at complete variance with the existing values, the company is bound to face problems. The brand positioning can get confusing and at worse, the brand's reputation in the existing and new categories can get damaged. z Individual brand name This strategy does not identify a brand with a particular company. The company uses different names for its offerings in different product categories. It may also use different names for different offerings in the same product category. This is necessary when it is believed that each brand requires a separate, unrelated identity. Sometimes the use of a family brand name when moving into a new market segment may harm the image of new product line since the family name may carry pre-existing, undesirable associations to the new segment. However, the lack of company association can prove to be risky and each time the company launches a new brand it has to establish its credentials afresh. Establishing an individual brand name is an expensive and time consuming exercise. Inspite of the expenses involved in establishing a brand name each time the company launches a new product, the strategy of having individual brand names for all a company's offering has some irrefutable merits. The brand manager is not constrained by the brand's association with some other categories. The brand can go ahead and establish strong points of parity with the category it is a part of, and then differentiate sharply from its competitors. The company need not dilute its brand positioning to make it compatible with its positioning in other product categories which it would have to do if a family brand name was being used. The brand can afford to be enmeshed with its category. An individual brand name can become a synonym for the category it belongs to if it becomes very strong. This is the most enviable state for any brand manager. z Combination brand names A combination of family and individual brand names capitalize on the reputation of the company while allowing individual brands to be distinguished and identified. This strategy entails using the family brand name first followed by individual names for every brand in every product category that the company operates in. This strategy is helpful if everything is well with the company and customers are generally happy with the company's offerings in various categories. Each brand will benefit from the other doing well. But the situation may start to get bad if a few offerings in some product categories start receiving bad vibes from customers. If the situation is not rectified, customers will get suspicious about all the brands that has the family brand name attached to it. A few more failures, and the initial skepticism of customers will snowball into a disaster with customers shunning away from products bearing the family brand name.

170 Self-Instructional Material Overview of Product Management NOTES A company using family brand names or combination brand names should exercise caution. If the company is entering a category which is very different from the ones that the company is currently serving, or the company is not very sure of succeeding in the new category, it should use an individual brand name instead of the family brand name or combination brand names. Because the family brand name is associated with so many businesses, too much may be at stake to risk its associations with any business which has reasonable chance of failing. 8.9.6 Brand Equity A brand is an intangible asset for an organization. The concept of brand equity originated in order to measure the financial worth of this significant, yet intangible entity. Brand equity is the value and power of the brand that determines its worth. The brand equity can be determined by measuring: z The price premium that the brand charges over unbranded products; z By assessing the additional volume of sales generated by the brand as compared to other brands in the same category and/or segment; z From the share prices that the company commands in the market (particularly if the brand name is the same as the corporate name, or customers can easily associate the performance of all the individual brands of the company with the financial performance of the corporate); z Returns to shareholders; z Assessing the image of the brand for various parameters that are deemed important; z Assessing the future earnings potential of the brand; z Or a combination of the above methods. Some methods of measuring brand equity involve the formulation of a multiplier by using a combination of the above methods. Such multipliers as brand strength or brand esteem can be determined by combining several variables to ultimately arrive at the brand equity. Brand equity comprises the following elements: z Awareness Awareness of the brand name among target customers is the first step in the equity building process. Awareness essentially means that customers know about the existence of the brand, and also recall what categories the brand is in. The lowest level of awareness is when the customer has to be reminded about the existence of the brand name, and its being a part of the category category. Thereafter is the stages of aided recall, i.e., upon the mention of the category, the customer can recognize the company's brand from among a list of brands. Then is the stage of unaided recall, wherein a customer mentions the company's brand among a list of brands in the category. The highest level of awareness is when the first brand that the customer can recall upon the mention of the product category is the company's brand. This is called top-of-mind recall. Awareness of the name acts as an anchor to which everything else about the brand is linked, much like the name of a person acting as an anchor for tying all associations about him. Building awareness involves making the brand visible to the relevant target audience by various promotional methods such as publicity, sponsorships, events, advertising, instigating word-of-mouth promotion etc. z Brand associations Anything that is connected to the customer's memory about the brand is an association. Customers form associations on the basis of quality perceptions, their interactions with employees and the organization, advertisements of the brand, price points at which the

Self-Instructional Material 171 Overview of Product Management NOTES brand is sold, product categories that the brand is in, product displays in retail stores, publicity in various media, offerings of competitors, celebrity associations and from what others tell them about the brand. And this is not an exhaustive list. Consumers add to brand associations with each and every interaction they have with the brand. All these associations are not formed only due to their interactions with the organization. Many associations are formed from what others tell customers about the brand. It is absolutely crucial that the company plan each interaction with every customer and relevant others (media, shareholders, employees, government) so as to eliminate even the slightest chances of any negative associations that can emanate from any of these sources. Associations contribute to brand equity, as strong, positive associations induce brand purchases, besides generating good word-of-mouth publicity. Such associations can also help the company in leveraging the brand, create strong barriers to entry for competitors, give trade leverage to the company and enable the company to achieve differential advantage. z Perceived quality Perceived quality is also a brand association, though because of its significance, it is accorded a distinct status while studying brand equity. Perceived quality is the perception of the customer about the overall quality of a brand. In assessing quality, the customer takes into consideration the performance of the brand on parameters that are important to him and makes a relative judgment about quality by assessing competitor's offerings as well. Therefore, quality is a perceptual entity, and consumer judgments about quality vary. Quality perceptions influence pricing decisions of companies. Better quality products can be charged a price premium. Quality is one of the main reasons for consumer preference for a brand in any product category. Thus, superior perceived quality can also be used to position the brand. z Brand loyalty Brand loyalty is said to occur when a customer makes the choice of purchasing one brand from among a set of alternatives consistently over a period of time. In the traditional sense, brand loyalty was always considered to be related to repetitive purchase behavior. For some products such as purchasing a house or an automobile, repetitive purchase behavior may not occur. In these situations, attitudinal brand loyalty, i.e., consumer feelings about the brand that was purchased, and their inclination to recommend the brand to others are measured. Brand loyalty is usually rated as the most important indicator of brand equity. The reason for this is that loyalty develops post purchase and indicates a consistent patronage of a customer over a long period of time whereas all other elements of brand equity may or may not translate into purchases. Brand loyal customers form the bedrock of a company. Higher loyalty levels lead to a decrease in marketing expenditure as such customers act as positive advocates for the brand. Besides, a company can introduce more products in its portfolio that are aimed at the same customers at less expenditure. It also acts as a potential barrier to entry for new players and gives time to the company to respond to competitive threats. The bargaining power of the company with the trade channel members is stronger when there are many loyal customers who would only buy the company's brand. In this case, the retailer merely distributes the manufacturer's products. z Other proprietary brand assets Proprietary assets include patents, trademarks and channel relationships. These assets are valuable as they prevent competitors from attacking the company, and prevent the erosion of competitive advantages and loyal customer base.

172 Self-Instructional Material Overview of Product Management NOTES Various activities of the firm determine brand equity. These activities may enhance or diminish the brand value. Activities that are synchronous with the overall vision for the brand enhance equity, and any activity that goes against this overall vision reduces brand equity. 8.10

PRICING OBJECTIVES z Profit maximization means setting prices so that total revenue is as large as possible relating to total

cost. Both prices and profit depend on the kind of competitive environment a company faces, such as whether it is in a monopolistic position or in a much more competitive situation. But a company cannot charge a price higher than the product's perceived value. z Satisfactory profits are a reasonable level of profits. Rather than maximizing profits, many companies strive for profits that are satisfactory to the stockholders and management, i.e. a level of profit consistent with the level of risk an organization faces. z Target return on investment: Return on investment measures management's overall effectiveness in generating profits with the available assets. The higher the company's return on investment, the better off it is. z

Market share is a company's product sales as a percentage of total sales for that industry.

Maintaining or increasing market share can be an indicator of the effectiveness of the company's marketing mix. Large market shares often mean higher profits due to greater economies of scale, market power and ability to compensate top quality management. z Sales maximization: A company with the objective of maximizing sales ignores profits, competition and the marketing environment as long as sales are rising. If a company is strapped for funds or faces an uncertain future, it may try to generate a maximum amount of cash in the short run. z Status quo pricing objectives: The company seeks to maintain existing prices or to meet the competition's prices. It is a passive policy and requires little planning. Often companies competing in an industry with an established price leader simply meet the competition's prices. These industries have fewer price wars. 8.10.1

Factors Affecting Pricing Decisions

Price-quality relationship Customers use price as an indicator of quality particularly for products where objective measurement of quality is not possible, such as drinks and perfumes. Price strongly influences quality perceptions of such products.
If a product is priced higher, the instinctive judgment of the customer is that the quality of the product must be higher, unless he can objectively justify otherwise. Product line pricing Some companies prefer to extend their product lines rather than reduce price of existing
brands in face of price competition. They launch cut-price fighter brands to compete with low price rivals. This has an advantage of maintaining image and profit margins of existing brands. By producing a range of brands at different price points, companies can cover varying price sensitivities of customers and encourage them to trade up to more expensive higher margin brands.
Explicability The company should be able to justify the price it is charging especially if it is on the higher side. Consumer product companies have to send cues to the customers about the high quality
Check Your Progress 13. Define what branding is. 14. What do you understand by brand equity?
Self-Instructional Material 173 Overview of Product Management NOTES
and the superiority of the product.
A superior finish, fine aesthetics or superior packaging can give positive cues to the customers when they cannot objectively measure the quality of the offering. A company should be aware of the features of the product that the customers can objectively evaluate and should ensure superior performance of those features. In industrial markets, the capability of salespeople to explain a high price to customers may allow them to charge higher prices. Where customers demand economic justifications of prices, the inability to produce cost arguments may mean that high price cannot be charged. A customer may reject a price that does not seem to reflect the cost of producing the product. Sometimes it may have to be explained that premium price was needed to cover R&D expenditure, the benefits of which the customer is going to enjoy. Competition A company should be able to anticipate reactions of competitors to its pricing policies and moves. Competitors can negate the advantages that a company might be hoping to make with its pricing policies. A company reduces its price to gain market share. One or more competitors can decide to match the cut, thwarting the ambitions of the company to garner market share. But all competitors are not same and their approaches and reactions to pricing moves of the company are different. The company has to take care while defining competition. The first level of competitors offer technically similar products. There is direct competition between brands who define their business and customers in similar way. Reactions of such competitors are very swift and the company will have to study each of its major competitors and find out their business objectives and cash positions. Competitors who have similar ambitions to increase their market share and have deep pockets will swiftly reduce price if any one of them reduces prices. A telephone company offering landline services has all telephone companies offering landline services as its first level of competitors. The second level of competition is dissimilar products serving the same problem in a similar way. Such competitors initial belief is that they are not being affected by the pricing moves of the company. But once it sinks in them that they are being affected adversely by the pricing moves of a company that seemingly belongs to another industry, they will take swift retaliatory actions. The telephone company has the mobile phone operators as its second level of competitors. The third level of competition would come from products serving the problem in a dissimilar way. Again such competitors do not believe that they will be affected. But once convinced that they are being affected adversely, swift retaliation should be expected. The retaliation of third level are difficult to comprehend as their business premises and cost structures are very different from the
telephone
company in question. Companies offering E-mail service are competitors at the third level of the telephone company. A Company must take into account all three levels of competition. Negotiating margins
In some markets, customers expect a price reduction. Price paid is different from list price. In industrial goods this difference can be accounted for by order-
size discounts, competitive discounts, fast payment discount, annual volume bonus and promotions allowance. Negotiating
margins should be built which allows prices to fall from list price levels but still permit profitable transactions. It is important that the company anticipates the discounts that it will have to grant to gain and retain business and adjust its list price accordingly. If the company does not build potential discounts into its list price, the discounts will have to come from the company's profits. Effect on distributors and retailers When products are sold through intermediaries like retailers, the list price to customers must reflect the margins required by them. Sometimes list prices will be high because middlemen
174
Self-Instructional Material Overview of Product Management NOTES
want higher margins.

But some retailers can afford to sell below the list to customers. They run low-cost operations and can manage with lower margins. They pass on some part of their own margins to customers. Political factors Where price is out of line with manufacturing costs, political pressure may act to force down prices. Exploitation of a monopoly position may bring short term profits but incurs backlash of a public enquiry into pricing policies. It may also invite customer wrath and cause switching upon the introduction of suitable alternatives.
Earning
very high profits It is never wise to earn extraordinarily profits, even if current circumstances allow the company to charge high prices. The pioneer companies are able charge high prices due to lack of alternatives to the customers. The company's high profits lure competitors who are enticed by the possibility of making profits. The entry of competitors in hordes puts tremendous pressure on price and the pioneer company is forced to reduce its price. But if the pioneer had been satisfied with lesser profits, the competitors would have kept away for a longer time, and it would have got sufficient time to consolidate its position. Charging very low prices It may not help a company's cause if it charges low prices when its major competitors are charging much higher
prices.
Customers come to believe that adequate quality can be provided only at the
prices
being charged by the major companies. If a company introduces very low prices customers suspect its quality, and do not buy the product inspite of the low price. If the cost structure of the company allows, it should stay in business at the low price. Slowly, as some customers buy the product, they spread the news of its adequate quality. The customers' belief about the quality-price equation starts changing. They start believing that adequate quality can be provided at lower prices. The companies which have been charging higher prices come under fire from customers. They either have to reduce their prices or quit. 8.11
PRICING
METHODS
Being merely a number, it might be tempting to believe that setting the price of
a
product must be an easy task for a company to perform. It is not. Many external and internal products factors have to be considered together. The price should have some reference to its costs, as they must be recovered at least
in the long run. Most companies cannot afford to sell at prices below cost for long periods. The price should be low enough to attract customers but high enough to bring reasonable profits to the company. A company might be tempted to maximize profits by charging higher prices,
but the customers may not consider the products worthy of the higher prices being charged and may not buy at all. The price should match the positioning strategy of the company. The value of a premium brand will be eroded if its price is low. In most situations, all the above factors have to be considered simultaneously when
prices are set. PRICING METHODS Pricing Methods Cost Oriented Pricing: Full-cost Direct-cost
Target return Marketing Oriented Pricing: • Pricing new product e.g. skimming and penetration strategies • Pricing existing products Competitor Oriented Pricing: Going Rate Competitive Bidding Value to the customer: • Buy response method • Trade-off analysis • Experimentation • EVC Check Your Progress 15. List any five factors that affect pricing decisions.
Self-Instructional Material 175 Overview of Product Management NOTES 8.11.1
Cost Oriented Pricing
Full cost pricing Variable and fixed cost per unit is added and the desired profit margin is added to the total cost. This price is true for one volume of sales/output. But if sales/output goes down, fixed cost per unit goes up, so price should go up. Therefore, there is an increase in price as sales fall. Sales estimates are made before a price is set which is illogical. It focuses on internal costs rather than customer's ability or willingness to pay. There may also be technical problems in allocating fixed/overhead cost in multi-product firms. Inspite of its drawbacks, the method forces managers to calculate costs, so it gives an indication of the minimum price necessary to make a profit. Breakeven analysis can be used to estimate sales volume needed to balance revenue and costs at different price levels. Direct cost pricing The desired profit margin is added to the direct cost to obtain a price. Price does not cover full costs, and the company would be making a loss. The strategy is valid if there is idle capacity as margin
is covering
some part of fixed costs. It is useful for services in periods of low demand as they cannot
be
stored. But customers who have paid higher amount may find out and complain. Direct cost indicates the lowest price at which it is sensible to take business if the alternative is to sit idle. It does not suffer from 'price up as demand goes down problem', as it happens in full cost pricing method. It also avoids problem of allocating overhead charges.

But
when business is buoyant, it does not take into account customers' willingness to pay. It is not for the long term as fixed cost must also be covered to make profits. But it is a good short term strategy to reduce impact of excess capacity. Target return pricing Under this method, the company fixes a certain return on the investment that it has made in launching a product. The investment amount usually includes the cost of development (R&D, product development, manufacturing etc.), and commercialization. The target return is set by the company after studying the market conditions. This is the return on investment, or the expected profits for the company. The company, after estimating its sales, would determine the appropriate price of the product. The company must sell at least the forecasted number of units of the products at this price to achieve its target returns (profits). 8.11.2
Competitor Oriented Pricing Going rate pricing There is no product differentiation i.e. there is some sort of perfect competition. All companies charge the same price and smaller players follow the price set by market leaders. This is not a attractive proposition for marketers. Marketers like to differentiate their offerings and have a degree of price discretion. Even for commodity products differential advantages can be built upon which premium prices can be charged. Competitive bidding The usual process is drawing up a detailed specification for a product and putting out for tender. Potential suppliers quote a price which is confidential to themselves and the buyer (Sealed bid). A major focus for suppliers is the likely bid prices of competitors. Expected profit = Profit × Probability of winning As the quoted price will increase, profits will rise, but the probability of winning the bid will fall. The bidder uses past experience to estimate a probability of clinching the deal at each price level. Expected profit peaks at
a particular bid price, at which the bid will be made.
176 Self-Instructional Material
Overview of Product
Management NOTES
Bid price Profit Probability Expected profit 2000 0 .99 0 2100 100 .9 90 2200 200 .8 160 2300 300 .4 120 2400 400 .2 80 2500 500 .1 50 The company would quote a price of $2200 as it stands to make the maximum profit at this price with 80 p.c. probability of winning the bid. But calculation of probability of succeeding goes haywire where competitors are desperate to win an order. Such competitors would quote very low prices to win the bid, as they are willing to take the lower profits. Successful bidding depends on having efficient competitor information system. The company should be aware of competitors who might be having lot of costly idle capacity. Such companies will quote low prices to utilize their idle capacity. Salespeople can feed details of past successful and unsuccessful bids. The salespeople should be trained to elicit successful bid prices from buyers
and
then enter them into customer database which record order specification, quantities and successful bid
price. But
not all buyers will reveal true figures so the buyers had to be graded for reliability. 8.11.3 Marketing Oriented Pricing Prices should be in line with marketing strategy.
Price
should be linked to positioning, strategic objectives, promotions, distribution
and
product benefits. Pricing
decision is
dependent upon other earlier decisions in the marketing planning process. For new products, price
will depend upon positioning strategy and for existing products price will be affected by strategic objectives. Pricing new products (i) Positioning strategy: For a new product there is an array
of potential target markets. For calculators they include engineers and scientists, bankers and accountants and general public. Choice of target market would have an impact on price that could be charged. If engineers were targeted, price could be higher. For accountants, price would be lower and for the general public, it would be still lower. Over time price would be reduced to draw other market segments even if engineers were the first targets. Therefore, for new products, marketers must decided upon the target market and the value that people in that segment place on the product (the extent of differential advantage) and price is
set that reflects

that value. Where multiple segments appear attractive, modified versions of the product should be designed and priced differently in line with respective values that each target market places on the product. When a company decides to launch different versions of a product at different prices targeted at different target markets, it should check if the customers of the more premium version will trade down once cheaper versions are available. An engineer will buy a scientific calculator even if it is very highly priced in comparison to simpler calculators because the later will not serve his purpose. If different versions cannot be sufficiently differentiated to be able to keep their customers, a company should desist from launching simpler and cheaper versions for as long as possible, because the customers who had hitherto bought the premium version will start buying the cheaper version, as they too will serve his purpose sufficiently.
Self-Instructional Material 177 Overview of Product Management NOTES (
ii) A combination of high price and high promotion expenditure is called rapid skimming strategy. The high price provides high margins and heavy promotion causes high level of product awareness and knowledge. A slow skimming strategy combines high price with low levels of promotional expenditure. High price means big profit margins but high level of promotion is believed to be unnecessary, perhaps because word of mouth is more important and product is already well known, or because heavy promotion is thought to be incompatible with
product
image as with cult products. This strategy (i.e., skimming) is useful if there is patent protection. Companies which combine low prices with heavy promotional expenditure are practicing rapid penetration strategy. The aim is to gain market share rapidly, perhaps at the expense of a rapid skimmer. Slow penetration strategy combines a low price with low promotional expenditure. Own label brands use this strategy. Promotion is not necessary to gain distribution and low promotional expenditure helps to maintain high profit margins. (iii) It is important to understand the characteristics of market segments that can bear high prices. The segment should place a high value on the product which means that its differential advantage is substantial. Calculators provide high functional value to engineers and they will be willing to pay high prices for them. Perfumes and clothes provide psychological value and brand image is crucial for such products to be acceptable. High prices go well with premium brand image. High prices are also more likely to be viable where consumers have a high ability to pay. A company can afford to price its products at higher levels if the consumer of the product is different from the person who pays for it. Products for children or stationery items for a company's employees come under this category. The user simply focuses on the suitability of the product and does not bother much about the price when selecting a product. A company can also afford to charge a high price if there is lack of competition among supplier companies. The company does not fear that its customers will switch over to competitors because of its high prices. A company can also charge a high price from its customers if there is high pressure on them to buy. A business traveler rushing to meet a deadline with a customer will be willing to pay a much higher price for an air ticket than a normal passenger not so hard pressed. (iv) Low price is used when
low price
is the only feasible alternative. Product may have no differential advantage, customers are not rich and pay for themselves, have little pressure to buy, and have many suppliers to choose from. At best such products could take going rate price, but should be launched at lower price to provide incentive for customers to switch from their usual brands. A company may wish to gain market share or domination by aggressively pricing its products. Penetration pricing i.e. low prices, for market share is sometimes followed by price increase once market share has reached a satisfactory level. Low prices may also be charged to increase output and so bring down costs through experience curve effect. Economies of scale
is
also achieved. Marketing cost per unit will also fall. Low price is also used when the objective is to make money later. Sale of basic product may be followed by profitable after sales service and/or spare parts. (v) Price sensitivity may change over time. When products are novel, customers are willing to buy them at higher prices because it serves their unique requirements or provides them self-esteem. But when the same products becomes widely used, customers start considering the price as important element in their choice criteria.
178
Self-Instructional Material Overview of Product Management NOTES
Also when customers' income increases, products about which they were price sensitive are bought without much regard to its price. Pricing existing products Strategic objective for each product will have major bearing on pricing strategy. For example, if a company wants to develop a premium brand it will price its products higher, but if it wants to capture
market

the mass market, it will have to price its products lower. z Build objective: The company wants to increase its market share. In price sensitive markets, the company has to price lower than competition. If competition raises prices, the company should be slow to match them. But if competition reduces prices, it promptly matches or undercuts it further. For price insensitive products, price will depend on the overall positioning strategy appropriate for the product. If the product is positioned as premium it will have to be priced higher but if the product is targeted at the mass market, the price has to be lower and competitive. z Hold objective: The company wants to maintain its market share and profits. The company's pricing policies are essentially reactionary in nature. The company maintains or matches price relative to the competition. The company reduces price if competition reduces price in order to hold sales or market share. If the competition increases price, the company also increases its price, as it does not want to compromise on its profitability. z Harvest: The company is focused on increasing its revenues. It wants to maintain or raise profits even if sales fall. The company sets premium prices in order to achieve this objective. It does not match competitor's price cuts, but price increase is swiftly matched. The company is proactive in revising its prices upwards. z Repositioning strategy: Price change will depend on the new positioning strategy. If the objective is to build a premium brand, the company will price its product higher, but if the company wants to reposition the product for the mass market, it will have to lower its price and make it competitive. A company cannot set its price in isolation. The pricing policy of a company is instrumental in achievement of its financial and strategic goals. The pricing policies of a company also send strong signals to customers about the positioning plank of the company. Therefore price can be decided only after knowing the positioning strategy and strategic objective. 8.11.4 Value to the Customer Price should be accurately keyed to the value to the customer. The more value that a product gives compared to competition, the higher the price that can be charged. There are four ways of estimating value to the customer: Buy response method A company
asks customers if they would
be
willing to buy
at varying price levels. Up to ten prices are chosen within the range usual for the product. Respondents are shown the product and asked if they would
buy the product
at, say $100. The first price quoted is near the average for the product category and other prices are stated
at random.
The percentage of respondents indicating that they would buy is calculated for each price and plotted to form the buy-response curve. The curve shows the prices at which willingness to buy drops sharply and give an
indication of
acceptable price range. The methodology focuses on respondent's attention exclusively on price, which may induce an unrealistically high price consciousness. But the method gives the company a good idea
Self-Instructional Material 179 Overview of Product Management NOTES
of the value that the customers place on the company's product. Customers weigh price against product features and benefits of the company's products and competitors' offerings. If a competitor has launched a product with more features and benefits at a lesser price, customers will take into consideration the existence of a better product at a lesser price, and will value the company's product'
s lower. Trade-off analysis Product profiles
consisting of
product features and prices are described, and respondents are asked to name their preferred profile. The customers see price as just one part of the offering. Their choice reveals the trade-offs that
customers
are willing to make between features and price. By analyzing the customers' preferences for particular profiles, relative importance of each of the product attributes including price is calculated.
After knowing the customers'
preference for product attributes and the price they are willing to pay for them,
the company can create the right combination of product features and price.
A limitation of this method is that respondents are not asked to back up their
preferences
by being required to buy their preferred combination of features and price. They may not actually buy their preferred choice when they are actually making a purchase. Experimentation Experimental pricing research places a product on sale at different locations with varying prices. In controlled store experiment a number of stores are paid to vary the price level of the product under test. Suppose 100 supermarkets are used to test two price levels. 50 stores could be
chosen at random

and allocated lower prices, and the rest could be selling at higher prices. By comparing sales levels and profit contributions between the two groups, the most profitable price is established. A variant of this procedure tests price differences between the test brand and a major rival brand. In half the stores, a price differential of, say $10 may be compared with $20. In test marketing,
the same product would be sold in two areas using an identical promotional campaign, but the prices would be different in the two areas. The two areas would need to
be matched in terms of target customer profile so that results
can
compared i.e. difference in sales in the two areas can be attributed to difference in prices. Test
needs to be for long enough period so that trial and repeat purchase at each price
can
be measured.
Competitors may act to invalidate the results. They may launch special promotional programs in the test areas, making it difficult for the company to attribute its sales figure to the price it is charging. This distortion is especially possible, when product is not highly differentiated and therefore introducing a cheaper version would make a premium buyer
to buy that cheaper version.
Economic value to customer (EVC) analysis Experimentation is more useful in consumer products. EVC analysis is used for industrial products. Economic value to the customer is the value that industrial buyer derives from the product in comparison to the total costs that he incurs in procuring and operating the product. A high EVC may be because the product generates more revenues for the buyer than competition or because its total of procurement plus operating costs are lower over the product's lifetime (Price = Setup costs i.e. purchase cost + operating costs). If a company has an offering
that has
high EVC, it can set a high price and yet offer superior value compared to competition, if the operating cost to the customer is lower. The essential idea is that a company buys a product to enable it to earn revenues at as less an expenditure as possible. So a product with high EVC is preferred by industrial customers.
The EVC analysis is particularly revealing when applied to products whose purchase price represents a small proportion of the lifetime costs to the customer.
Check Your Progress 16. What are the two factors that affect competitor-oriented pricing?
180 Self-Instructional Material Overview of Product Management NOTES 8.12 PRICING STRATEGIES 8.12.1
Initiating

98% **MATCHING BLOCK 115/151** W

Price Changes Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic. z Circumstances under which price can be raised Marketing research may reveal that customers place a higher value on products than is reflected in its price. A price increase is not likely to turn away customers as they will still find the company's offer attractive. But if competitors hold on to the old price levels and the offerings are similar, customers are likely to defect. In most industries, the offerings of major competitors have become similar, and it may be suicidal for a company to raise prices if competitors do no follow suit. In most industries customers are getting good value and the industries can become more profitable if the companies raise prices. But because of unpredictable competitor reactions, no company takes the initiative to raise prices. One alternative is to raise prices and introduce some differentiation in the offering simultaneously so that the customer feels that he is paying the extra amount for some added value. The customer essentially does not mind paying the high price because he is getting commensurate value, but is perturbed that other companies are offering the same value at lesser price. The slightly differentiated offering will put him at ease. Costs of doing business may have gone up. If the escalating costs are affecting all competitors, most of them are likely to follow suit when a company takes the initiative to raise prices. But if only a particular company has been affected, it cannot raise prices as competitors will hold on to their prices and lure away the company's customers. There is excess demand. If a company raises price and competitors do not follow suit, the company may still get enough

customers

96%	MATCHING BLOCK 116/151	W

from the increased pool of customers to end up with higher profits. But most competitors are likely to raise their prices to enhance their profitability. If a few competitors hold on to the old prices, it may actually work to their disadvantage. Customers will take the price charged by the major and majority of companies as reasonable and will attribute the low prices of the few companies to inadequate quality. A company's objective may have become to harvest the business i.e. to increase margins at the cost of survival. It does not mind losing some customers but charges higher prices to whoever is willing to buy its products. Competitors should not raise their prices in response to such a company's raising its prices. But if competitors are oblivious of the company's intentions and raise their prices, the company will be able to retain its customers and really earn a windfall. z Circumstances under which prices may be cut Marketing research discovers that the price is higher compared to value customers place on the product. If the company does not reduce its price, the customers would stop buying. If the scenario is true for the whole industry, all the competitors will follow the initiator, and market shares will stabilize somewhere close to where it was before the price cut. Costs of doing business may have come down. The company wants to pass on some of the benefits of the reduced costs to customers to earn their goodwill. It will help the

Self-Instructional Material 181 Overview of Product Management NOTES

100%	MATCHING BLOCK 117/151	W

company immensely if such a move is well-publicized. Competitors may follow suit but the company which does it first is likely to register maximum goodwill among customers. The company has excess capacity and reduces its price to increase volumes so that its per unit cost goes down. Therefore the low price is compensated to some extent by falling costs if sales increase in response to the low price. If a company operating at full capacity cuts its price in response, the cut will come straight from profits as it does not get any reduction in cost. Such a company will be reluctant to cut price and will lose customers to the company with larger capacity. Companies with larger capacities can get advantage over smaller companies by reducing their prices systematically. But if there is industry overcapacity i.e. every company has excess capacity, competitors are likely to follow suit if a company initiates a price cut. Sales do not increase for any company, but profits fall further for every company. The company wants to increase its market share. It cuts price and if it is lucky not to have its competitors matching the cut, it may be able to increase its market share. But this method to increase market share is fraught with danger. It may lead to spiraling price cuts in the industry with reduced profits for every company.

z

100%	MATCHING BLOCK 118/151	W

Proactive price cut A company cuts price to preempt competitive entry into a market. It incurs short term profit sacrifices but immediately reduces the attractiveness

of the

97%	MATCHING BLOCK 119/151	W

market to the potential entrant. The competitors do not consider the market attractive enough to commit resources in it. The move reduces the risk of customer annoyance if prices are reduced only after competition entry. 8.12.2 Tactics of Price Change (i) The company increases or decreases price by the full amount in one go. When a company raises prices substantially at one instance, it avoids prolonging the pain of a price increase over a long period but raises the visibility of price rise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offering they may never return. (ii) When a company reduces prices in one go, the decline in price is noticed by customers and they may now find the new attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regards to attracting customers. A big price reduction stirs the market, customers take notice and sales increase. Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins. There is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a avoidable hit in its revenues

if it

99%	MATCHING BLOCK 120/151	W

unwittingly reduces prices more than that was required to create a stir in the market. (iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. This image may be harmful in the long run. (iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear. Small cuts are made till desired effect on sales is achieved. The company is able to avoid unnecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also 182

Self-Instructional Material Overview of Product Management NOTES

99%	MATCHING BLOCK 121/151	W

cannot be effectively advertised. And when the company continues the process for too long, customers may postpone their purchases and wait for the next cut in price. (v) An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest of grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances. (vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier (vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay higher prices also pay the decreased price. But under this method, the company offers discounts to some customers to get their business but charges full price to others. There is fear of customers' reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prices become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer. (viii) A company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services, the customers may not value them or may not even want them. And over a period

of

96%	MATCHING BLOCK 122/151	W

time customers begin to expect these extra services as normal part of the offering and do not acknowledge any favors being granted to them. A possible solution is to offer customer an option of taking the bundled product or a small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service. (ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. The first move makes a serious dent in the profits and the second results in the virtual reduction of list price. (x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prices. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though creating a low price fighter brand will cost the company, it will be worth protecting its premium brands.

Self-Instructional Material 183 Overview of Product Management NOTES 8.12.3 Estimating Competitor Reaction z

95%	MATCHING BLOCK 123/151	W

A price rise that no competitor follows may turn customers away to competitors' offerings. A price cut that is met by the competition will not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price hike is matched by competitors but its price reduction is not matched by competitors. z A company's reactions to another company's price moves is dependent on its strategic objectives. It is likely to follow price increase if its strategic objective is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding and will ignore price cuts

if it

96%	MATCHING BLOCK 124/151	W

is harvesting. Companies should try to gauge their competitors' strategic objectives for their product. By observing pricing, and promotional behavior, talking to distributors and even hiring their employees estimates of whether competitor products are being built, held or harvested can be made

z If

95%	MATCHING BLOCK 125/151	W

price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objective of a firm. z If competition has excess capacity, a price cut will be matched. z A price rise is likely to be followed if competition is faced with excess demand. Competitor reaction can also be judged by looking at their price reactions to previous price changes. 8.12.4

Reacting

98%	MATCHING BLOCK 126/151	W

to Competitors' Price Changes When to follow a competitor's price moves Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is profit margin rather than sales/market share gain. Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufacturers or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/market share loss. In build objective price fall may exceed initial competitive moves. When to ignore

99%	MATCHING BLOCK 127/151	W

to a competitor's price move Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing

its

100%	MATCHING BLOCK 128/151	W

price incompatible with their brand image. Companies pursuing build objectives

will allow a competitor's price rise to go unmatched in order to gain sales and market share.
184
Self-Instructional Material Overview of Product Management NOTES

100%	MATCHING BLOCK 129/151	W

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts,

for to do so

97%	MATCHING BLOCK 130/151	W

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 8.12.5 Tactics of Reaction Price change can take place slowly or quickly. A quick price increase is likely when there is an urgent need to improve profit margins. Slow reaction is desirable when an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly. The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing everything to hold prices. There should be quick reaction to competitor's price decrease if there is erosion of market share. Reaction is slow when a company has loyal customer base willing to accept higher prices for a period so long as they can rely on price parity over the longer run. 8.12.6 Price Wars A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor. Of all the variables of a company's marketing strategy, it takes the least time for executives to make changes in their pricing strategy. However, such changes also trigger several unexpected and mostly unwanted repercussions from competitors, customers and also within the organization. Change in pricing strategy usually means initiating a price cut. Such a price cut invariably triggers a chain reaction in the industry, with competitors usually trying to outdo each other in cutting prices, leading to a decline in the overall profits of every player in the industry. Price then becomes the main competitive tool which eventually undermines the investment that the company may have undertaken to develop any differential advantage, for instance, superior quality, better delivery systems or superior technology. It also makes customers expect and want more price reductions, affecting the industry's competitiveness irreparably. Companies in such situations must decide their response strategies. When faced with a competitor who has reduced prices, most companies choose to retaliate with price cuts. It is however important to explore other possibilities before succumbing to the inevitable price war. The company should first analyze the situation. It should evaluate customer issues such as price sensitivity of the target segment, competitor issues such as their cost structures, intentions, competencies, and company related issues, i.e. its own cost structures, competencies, vision before initiating any action whatsoever. It should also analyze the impact of the present price cut on suppliers, government etc. Waiting for some time to test the real-time effect of the price cut initiation (instead of merely analyzing the situation) may also be a sensible idea for some companies. Thereafter, the company has several options other than merely decreasing its price levels in retaliation.

z

100%	MATCHING BLOCK 131/151	W

The company may choose to reveal its strategic intentions to its competitors without responding to the price cut in any other manner. For instance, it may reveal its low cost structure to competitors that could allow it to sustain the price war longer,

if required.

100%	MATCHING BLOCK 132/151	W

It may also let it be known to competitors that it does not intend to compete on the basis of price in this market. Maybe the firm could alert the regulators indirectly against such predatory moves of the competitor. The basic intention of this move is to scare the competitor, or to let it know that it would eventually lose out in the race.

Self-Instructional Material 185 Overview of Product Management NOTES z

100%	MATCHING BLOCK 133/151	W

The company may choose to compete strictly on non-price based measures. If a competitor has reduced prices, and perhaps others are also willing to do so, the company may either decide to persist with existing price levels or even increase prices. The main purpose is to prevent damage to the brand image in the market (especially if the brand carries a premium image among the target audience). The company would also have to emphasize high quality or value-added features in its communications or provide more value or denigrate the attempt of competitors to shift the focus of customers away from quality to price. Perhaps they could also try to convince customers of the

95%	MATCHING BLOCK 134/151	W

dangers of buying lower priced products, or warn them against future competitive moves (such as the dangers of monopolistic tendencies if other competitors were driven out of the market because of predatory pricing). z It is important to remember that there is life after price wars for brands. The brand should strengthen itself by providing more features and benefits and advertising more stridently. A stronger brand is the ultimate deterrence against price slashing competitors. But if brands reduce prices indiscriminately during the price war as a retaliatory measure, it damages the brand image for good. z The company may selectively respond to such price cuts to avoid an all out war. For instance, the company may give quantity discounts. It may engage in value pricing i.e. charge a higher price from customers who want more features, and lesser price from those who want a stripped down

version of

97%	MATCHING BLOCK 135/151	W

the product. It may offer peak services at usual prices, and cut down prices at non-peak hours to stimulate demand. This method allows responding to the price cut in a manner that prevents damage to the brand's reputation. It also allows adequate time to the company to plan further moves and sense the impact of the competitor's price cuts with less risks. z The

99%	MATCHING BLOCK 136/151	W

The last option for the company is to fight the price war. The company has to resort to this option if its stakes in the industry are high i.e. the business is strategically important for the company. However, the ability to fight out the war depends on the financial strength of the company. However, the intensity and the time for which the war would be waged would depend on other players in the industry. Stronger players with larger stakes would stretch the war for a longer time. Therefore, the industry dynamics should be weighed carefully before the company goes whole hog. z If the company cannot fight the price war, and it is foreseen that the war would be fought by other stronger players in the industry, the company should start planning exit strategies. There is no point fighting a battle which one can never expect to win. 8.12.7

Pricing Cues Pricing cues should be planned, implemented and measured, to track their success. Long term organizational perspective should be uppermost while deciding on these cues. Customers do not have an accurate sense of prices of the items they are buying. And surprisingly most customers do not make any big effort to know the true price of the items that they have bought or are planning to buy. And most customers hardly lose sleep over their ignorance. Customers are content with the bargains they get because they trust their retailers to tell them if they are getting value for their money. Retailers send manifest and subtle signals to customers, suggesting whether a given price is relatively high or low. Some of the commonly used pricing cues are: z The sale sign announces a discount for the customer. There is a significant rise in demand when an item is on "sale" though the retailer may make no commitment to a particular level of discount. But there are incidents when a retailer has claimed that a price has been discounted when actually that is not the case. Some retailers exaggerate their discounts by inflating their regular prices. And some items are never sold at their regular prices. When customers learn about such practices of a store they feel cheated and 186 Self-Instructional Material Overview of Product Management NOTES shun such stores. But most customers trust sale signs because they are genuine most of the time. Customers are also able to quickly adjust their attitude towards sale signs, if they find a store overusing it. The sale sign becomes less effective in increasing demand if used very frequently. The credibility of the discount claims are reduced. They depress total sales when more items are on sale in comparison to when only a few items are on sale.
Total category sales are highest when some, but not all, items in
the
category have sale signs. Past a certain point, use of additional sale signs will cause total category sales to fall.

Therefore sale signs should be used judiciously. z '9' at the end of a price denotes a bargain. Demands have been reported to go up when prices have been increased to finish at figure ending with 9, for example when price has been increased from $ 75 to $ 79. One possible explanation for this type of behavior of customers is that 9 at the end of a price acts the same way as a sale sign does i.e. proclaim a discount. This is corroborated by the fact that prices ending in 9 are less effective when an item already has a sale sign. The sale sign informs the customers that the item is on sale, so little information is added by the price ending. When a store prices all its items ending in 9 all the time, it is not likely to increase demand. z Customers do not remember prices of most items so they cannot tell whether they are being charged a fair amount. But they remember the prices of a few items that they buy very frequently. For example, most customers will remember the price of a can of Coke. If they find that the price of a can of Coke in a particular is less than what he has been paying, he will assume that other items would be similarly priced at lower levels. And conversely if he finds the can of Coke to be priced at higher levels, he will believe that the store normally charges higher prices on all its items. Retailers take advantage of this phenomenon. Supermarkets take a loss on Coke or Pepsi and many sporting-goods stores offer tennis balls at a price below cost. Retailers should choose popular products whose prices customers are able to remember accurately and price them lower than cost. Complementary products also serve as good pricing signposts. A retailer can sell DVDs at price below their cost, to signal low prices for DVD players. But customers are less likely to believe that the store price levels are low if they can attribute the low price to special circumstances. For example, if everyone understands that chip-intensive products are cheaper because the price of computer memory chips have come down, they will not believe that the store normally charges low prices. The retailer should attempt to convey an image of low prices by offering popular and complementary products at lower prices, so that other items are sold because of perception of lower prices. If a retailer offers a higher discount on an item by quoting a higher regular price, it may lure in customers for the sale but the customer will walk out with a feeling that the store price levels are higher. Customers will not go to such store for their normal purchases at regular prices. z Some retailers promise to meet or beat any competitor's price. Some retailers voluntarily refund the extra money paid by a customer if a competitor advertises a lower price for the item that the customer bought. When retailers give price guarantees, customers are more confident that the store prices are lower than those of its competitors. But it is not entirely clear whether price matching offers by retailers translate into lower price for customers. Price guarantees reduce the level of price dispersion in the market, so that all retailers tend to have similar prices on items that are common across stores. They may lead to higher prices overall. It is also argued that price-matching policies are not really targeted at customers. They are a warning to competitors that if they cut their prices, they will be matched. This may reduce competition. In business-to-business relationships, suppliers promise customers that they will not sell their product to any other customer at a lower price. Their customers may believe that they are getting the best price but essentially the supplier is signaling to its competitors that it will not reduce prices since it will have to rebate the discount to all its previous customers. This may also reduce competition.

Self-Instructional Material 187 Overview of Product Management NOTES It is important that the retailer has measurement systems in place to monitor the effect of a pricing cue, which will help in taking decision about its continuance, or extension to other products, or termination. It is also important to consider the long-time implications of the cues. It sometimes happens that maximization of short-term profits leads to sub-optimal profits in the long run. In response to sale signs it has been noticed that customers who saw deep discounts on their first purchase returned more often and purchased more items when they came back, but established customers stocked up, returning less often and purchasing fewer items. If a retailer ignores such long-term implications, he will set very low prices for established customers because they bought more in response to the lower price but came back less and bought less overall. The retailer would instead set high prices for first-time customers because they bought less in the first purchase but came back to purchase more. The number of times a sales can be held and number of items which can be on sale at one time have to be very judiciously decided, as excessive use of sale signs gives diminishing returns. Finally it is important to remember that pricing cues are double-edge swords. If price cues gain credibility with customers, they will come back to shop repeatedly. But if customers learn that the pricing clues are a mere ploy to lure them and there is no substantive gain to them, they may never return to the store again. 8.12.8

98%	MATCHING BLOCK 137/151	W

Consumption and Pricing Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly. If a customer pays regularly for the service he is using, he is steadily reminded of the cost he is incurring and is more likely to use the service regularly. When a customer uses a service regularly, he is more likely to discover its benefits and continue using the service. In comparison, if a customer makes an one-time payment, he is enthusiastic in using the service in the beginning, but the interest may wane gradually. And since the customer does not receive the full benefits of the service, he is likely to discontinue using the service. For example if a customer pays membership fees for a health-club monthly, he is reminded of the cost of his membership every month. He will feel the need to get his money's worth throughout the year and will workout more regularly. Since he is benefiting from the membership, he is likely to renew the membership. Companies have not paid attention to the relationship between consumption and pricing policies. Companies believe that if customers do not feel the pain of making payments they will be more liberal in buying the product or the service. Therefore, they mask the cost to the customers by such methods as automatic payroll deductions, bundling specific costs into a single, all-inclusive fees, season tickets etc. But these practices reduce the likelihood of the customer using the product, and a customer who does not use the product is not likely to buy it again. Following guidelines would be helpful. z To build a long-term relationship with customers, it is important that they consume the product that they have bought. The extent to which customers use paid-for products determines whether they will buy the product again or not. This phenomenon is more pronounced in businesses that sell subscription or membership. Health club members who workout four times a week are more likely to renew their memberships than those who work out just once a week. In software business, once customers start using an application, they are more likely to buy its upgrade. In businesses like movie theatres, sports arenas and concert halls, a big part of the revenue comes from customer spending on parking, food and drinks. So if ticket holders do not attend these events, these high margin secondary sales are lost. Finally, consumption is important to any business that relies on satisfaction to generate repeat sales and positive word-of-mouth. For products 188

Self-Instructional Material Overview of Product Management NOTES

94%	MATCHING BLOCK 138/151	W

as diverse as wine, books and electronic gadgets, customers will not purchase again or spread positive word-of-mouth if they do not use the products. z Customers feel compelled to use products that they have paid for to avoid feeling that they have wasted their money. Most customers would use a less effective service or product more when they have paid a higher price, than use a more effective product or service that they have bought for a lower price.

z

97%	MATCHING BLOCK 139/151	W

Consumption is driven by perceived cost rather than the actual cost. A $10 cash transaction feels of different magnitude than a $100 cash transaction. But a $10 credit transaction feels similar to one for $100. Customers remember the cost of products better if they pay for them with cash than if they pay with credit cards. They also feel more pressure to consume products if they paid with cash than if they paid with credit card. Season tickets, advance purchases and subscriptions also reduce the pressure to consume. z Payments that occur at or near the time of consumption increases attention to a product's cost, increasing the likelihood of its consumption. But payments made either long before or long after the actual purchase reduce the attention to a product's cost and decreases the likelihood of its being used. Immediacy of payment is critical for the consumption of a paid-for product. Services where customers have an option of paying annually, semiannually, quarterly and monthly, reveal this phenomenon remarkably. It is found that members who make a single annual payment use the service most frequently in the months immediately following payments. But the frequency of usage goes down subsequently, and in the last few months they treat their membership as

if it

100%	MATCHING BLOCK 140/151	W

were for free. Similarly for semiannual and quarterly payments, use of service is highest each time payment is made only to decline steadily until the next payment. For monthly payments the use is more uniform as they are reminded of the cost more frequently.

z

99%	MATCHING BLOCK 141/151	W

Companies bundle prices to hide the cost of individual components. Price bundling influences consumption. It is easier to identify and account for the cost of an individual product in an unbundled transaction than within a bundled transaction. The one-to-one relationship between price and benefits in an unbundled transaction makes the cost of that item obvious which makes the customer feel guilty if he does not use the product. In case of season tickets the customer pays one bundled sum for a collection of individual events, making it difficult to allocate costs to any individual performance or game. This reduces the likelihood of its usage. As the number of events or days included in a bundle increases, the chances of attendance in individual events goes down. Managers can run operations more efficiently by anticipating actual demand by looking at the mix of bundled and unbundled purchases or the ratio of current to advance purchases. A manager should expect more no-show rates when there are more bundled or advance purchases. 8.12.9 Price Sensitivity Companies can reduce price sensitivity of customers and have more scope for maneuvering their pricing strategies. Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product. A customer is price sensitive if he is bearing the cost as opposed to a third party. The customer is also less price sensitive if he does not have to make the payments upfront. Allowing customers to pay later may make the customer less fixated on the price. Arranging a loan for the customer will allay the concern of high price. The customer does not mind paying

Self-Instructional Material 189 Overview of Product Management NOTES

98%	MATCHING BLOCK 142/151	W

a slightly higher installment but he might not be willing or able to pay the high initial price. If the payment for some services are being made by insurance companies or come as perks, the customers will not worry about price and seek the best service. Servers providers should seek such businesses and offer premium quality of services. Pharmaceutical companies will have a greater pricing latitude if neither the prescriber nor the patient paid the cost of the medicines, but the price was paid by an insurer. A customer is also price sensitive if the cost of the item represents a substantial percentage of a customer's total expenditure. The choice of the target market becomes very important. In generic terms, a wealthier segment would be less price sensitive and should be targeted. Industrial marketers can target such customers for whom their product will be minor purchase in comparison to the other purchases that they make. If the buyer is not the end user and he sells his end product in a competitive market, price pressure from further down a distribution channel ripples back up through the chain. For instance, one steel producer was able to obtain good margins by selling a component to buyers who then produced specialty items for end users. Buyers of the specialty item were less price sensitive. Selling that same component to buyers who made products for commodity-like markets meant lower realized prices as the end users were more price sensitive. Therefore the company will have to evaluate the price sensitivity of its customer's customers and target such customers whose own customers are less price sensitive. The customer is more likely to be price sensitive if he is able to judge quality without using price as an indicator. A customer's price sensitivity will be more also if the product is one for which it is easy to make comparisons. For instance, it is easier to compare cameras than it is to compare computers. A customer will be more price sensitive if there is limited difference between the performance of products in the category. A company will have to make it difficult for customers to evaluate quality and make comparisons. A company should desist from using purely functional attributes as competitive parameters. In most categories, with some ingenuity, products can be imbued with some sense of style, fashion, color, sensuality and grandeur. Customers will be unable to put a monetary value to these attributes. In hard-to-judge categories such as perfumes, price has little impact because the customers assume that high price and high quality go together. A customer will be price sensitive if he can easily shop around and assess the relative performance and price of alternatives. Advances in information technology will enable customers to increase their awareness of prices and access to alternative options. Price sensitivity of customers is going to increase in a wide range of products and services. It will be dangerous to deny access to one's product, or information about it, as the customer may just refuse to buy unless he has made the required comparisons. The only solution will be to imbue the product with elements of style, fashion and sensuality which will make comparisons difficult. A customer will be price sensitive if he can take the time he needs to locate and assess alternatives. For instance, in an emergency, the speed of delivery will be crucial. Price will not be the primary factor determining the purchase. A sense of urgency has to be created in the buying situation. Products may have to be phased out more regularly and threats of impending stock-outs should sound real. A customer will be price sensitive if he can switch from one supplier to another without incurring additional costs. A customer will also be price sensitive if the long-term relationship with the company and its reputation are not important and the customer's focus is on minimizing the cost of the particular transaction. Easing

the

100%	MATCHING BLOCK 143/151	W

process of procurement for the customer by taking responsibility of maintaining enough inventory with the customer and ensuring automatic replenishments will bind the customer to the seller. He will not be sure if the next supplier will do so much. The seller will have to prompt the customer to 190

Self-Instructional Material Overview of Product Management NOTES

98%	MATCHING BLOCK 144/151	W

invest in the relationship. Joint efforts and exercises to increase quality and productivity will keep the customer interested in the relationship. The customer should be made to feel that he is getting more than the product or the service that he is buying from the seller. The seller has to create a web of services and interactions around the product sold and shift the customer's attention from the product. Sadly most companies take the level of their customers' price sensitivity as something they cannot do anything about and shudder to increase prices even for very legitimate reasons. But companies can take steps to reduce the price sensitivity of their customers and thus be able to charge higher price. 8.13

CHANNEL DESIGN AND CHANNEL MANAGEMENT DECISIONS 8.13.1 Channel Design Channel design decisions involve (1) the selection of most effective distribution channel, (2) the appropriate level of distribution intensity and (3) degree of channel integration. 1. Channel selection

A company has to consider many factors related to the market and customers, its own situation, the product, and the competitive environment. All these factors have a strong bearing on the type of distribution channel selected. A company should be very deliberate in deciding upon a distribution channel as it is expensive, cumbersome, and can invite litigations to dismantle a distribution channel once it is established because interests of independent intermediaries are involved.

Marketing factors z Buyers' expectations may dictate that the product be sold in a certain way. Buyers may prefer to buy locally and in a particular type of shop. Failure to match these expectations can be harmful. Buyers' needs regarding product information, installation and technical assistance should also be considered. Buyers' level of need regarding such services has to researched. It has to be decided whether the manufacturer or the channel intermediary can

best meet these needs in terms

of expertise, commitment and cost. For instance, car service can be provided by dealers or independent authorized service providers, or by service centers run by the company. The company has to decide as to who will provide the service. z The willingness of channel intermediaries to market a product

also influences channel decisions. Direct distribution may be the only option if distributors refuse to handle the product. For industrial products, this may mean recruitment of salespeople and for

consumer products, selling through direct mail, telephone, or internet, may be employed. This situation may arise if the brand or the product is not well established, the intermediaries feel that there would not be enough buyers, selling the product is difficult and complicated, and there is not enough margin. For such products the manufacturer will have to increase margins for the intermediaries and provide them more support. Alternatively, the

manufacturer has to create demand among final consumers for the product, so that intermediaries get interested in keeping it. Investment in branding is a good option for marketers of consumer products and even the marketers of industrial products should not rule out the option of branding their products. When customers will demand products, it will be in the self-interest of retailers to keep such products. In fact, manufacturers should look at branding as their weapon for the long term against Check Your Progress 17. What is one popular tactic adopted by businesses to change prices? 18. When is it acceptable to ignore a competitor's price cut?

Self-Instructional Material 191 Overview of Product Management NOTES powerful intermediaries. Once they have made the initial investment in building a strong brand, they can reduce the margins of the intermediaries and plough back the money in more branding efforts. z

The profit margins demanded by wholesalers and retailers and the commission rates

expected by sales agents also affect their attractiveness as a channel intermediary. These costs need to be assessed in comparison with those that will be incurred if the company decides to sell

directly to customers. As the powers of retailers have increased, they are demanding higher margins from manufacturers. While most manufacturers are complying due to retailers' command over a huge base of customers and lack of alternate means of reaching customers, some companies are trying to bypass retailers by opening their own stores. If retailers' dominance continues, some radical response to bypass the powerful retailers should be expected from manufacturers in the near future.

z The location and geographic concentration of customers also affects channel selection. The more local and clustered the customer base, the more is direct distribution feasible. Direct distribution is also prevalent when buyers are few in number and buy in large quantities. A large number of small customers means that using channel intermediaries is the only economical way of reaching them. Manufacturer factors z Manufacturers may

lack the financial and managerial resources to take on channel operations. Lack of financial resources means that salesforce cannot be recruited and

sales agents or distributors are used. A manufacturer of consumer products will need huge investment in setting up infrastructure for distribution because the number of customers are large and are geographically dispersed. The distribution channels of consumer products are long, and managing such a wholly-owned distribution infrastructure will be an arduous task even for the mightiest manufacturers. In addition, manufacturers may not have customer-based skills to sell and distribute their products and will have to rely on intermediaries. z A wide mix of products may make direct distribution cost effective, as the cost of setting up the common distribution infrastructure will be distributed over a larger number of products.
Narrow or single product companies find the cost of direct distribution prohibitive
unless the product is expensive and exclusive. z The use of independent channel intermediaries reduces manufacturer control. Manufacturers lose control of the price charged to customers
and the way the product is stocked and presented to customers. There is no guarantee that new products or the full range of the manufacture would be stocked. Manufacturers of electronic products are opening wholly-owned megastores to showcase their full range of products. Channel intermediaries are obliged to perform certain tasks like in-store promotion in retail stores, promotion in the local media by retailers, or appointing a minimum number of salespersons in a region by a wholesaler. It is very important for manufacturers to constantly monitor whether channel members are performing the agreed functions. Product factors z Large and complex products
are often supplied direct to customers. The need for personal contact between the manufacturer and customer, and higher price means that direct selling and distribution is necessary and economically feasible.. z Perishable products require short channels to supply the customer with fresh stock. Bulky or
difficult to handle products may require direct distribution because distributors may refuse to carry them in their stores due to space constraint or because expensive provisions will have to made to handle and store them. Intermediaries may have difficulty in displaying such bulky products.
192
Self-Instructional Material Overview of Product Management NOTES
Competitive factors If competition controls traditional channels of distribution, for instance, through exclusive dealership arrangements, a salesforce to sell directly may be recruited or a manufacturer controlled or owned distribution network may be set up. Producers should not
accept that channels of distribution used by competitors are
the only way to reach target customers. Direct marketing provides an opportunity to provide products in new ways. Alternate distribution channels may be used as a means of attaining competitive advantage. For instance, Dell uses direct marketing to gain a substantial competitive advantage by customizing personal computers to suit customer requirements. 2. Distribution intensity Deciding the number of outlets in a region or for a population i.e. the intensity of outlets is a critical decision. If the number of outlets are more than required, the cost of serving a customer goes up. If the number of outlets are less than required, customers will face difficulty in accessing the outlets and they may buy an alternate brand or product or forgo purchase altogether. There are three options for a company: Intensive distribution It provides maximum coverage of the market by using all available outlets.
With many mass market products such as cigarettes, food and confectionaries, sales are a direct function of
the number of outlets penetrated. This is because customers have a range of acceptable brands from which they choose. If a brand is not available
in an outlet,
an alternative is bought. The convenience aspect of purchase is paramount. Some of such purchases are also unplanned and impulsive in nature. They are bought because the products happen to be in sight. If the product or the brand in not spotted by the customer, sales are lost. New outlets should be sought which have not stocked the product or brand so far. The retailers who have been stocking the product do not mind when the manufacturer signs up more retailers to carry the product because the revenue generated from each customer for such products are low. Wider availability and display of such products across many outlets
act to make them popular, which
increases the sale of the product in every outlet. Also, most of these purchases happen in grocery stores for which customers show high amount of loyalty. Therefore it is important that the store has all the products that its customers may want and expect the store to stock. It is not very worrying if the next store has them too. Selective distribution For products like electronics goods and home appliances, manufacturers use
a limited number of
outlets in a geographical area. Best outlets are selected, and a close working relationship is built with these outlets. Sales staff in such stores have to be trained and motivated. Retail outlets and industrial distributors
like this arrangement as it reduces competition amongst them. This arrangement is used when buyers are willing to spend time in the outlet when selecting products. The company can not make its products available in all possible

outlets because customers expect a minimum amount of assistance in making the purchase. They may also expect the product to be delivered and installed at their homes. They may also expect the retailer to arrange loans and insurance for the product that they plan to buy. Therefore only the retailers who can provide such services can be signed up to carry the product. And when these retailers have made such investments, they do not expect the next shop to be selling the same product. They expect some territory to themselves. Retailers would be aggrieved if the manufacturer tried to add more outlets in their region as the new outlets would eat into their sales. The customer makes such purchases after deliberation and is purposeful about buying a brand or from a set of brands. He will be willing to travel some

distance to find his preferred brand or brands and therefore storing the brand in stores which are very close to each other is really not required. Exclusive distribution Only one wholesaler, retailer or industrial distributor is used in a geographical area. Auto dealers are an example. This reduces the purchaser's power to negotiate prices for the same model between dealers since to buy in a neighboring town or from a dealer in distant location, may be inconvenient when repairing and servicing are required. It allows close cooperation between the manufacturer and the retailer over servicing, pricing and promotion.

The right to exclusive distribution may be demanded by distributor as a condition for stocking a manufacturer's full product line. The manufacturer may agree for exclusive dealing where the distributor agrees not to stock competing lines. But before granting exclusive dealership to a retailer in a region, the manufacturer should deliberate if his brand has strength enough to be able to make the customers face the inconvenience of traveling some distance to buy the brand. In categories like automobiles where the manufacturers have strong brands and customers have strong preferences, exclusive dealership should be granted. Since establishing such dealerships involves big investments, it is wise not to fritter resources in having too many dealers. Not many customers buy a particular brand of car because its dealer happens to be next door. The purchase is too expensive for customers to engage in such whims. But the same arguments do not hold in categories like apparel where exclusive dealerships are provided. Customers' choice criteria are not crystallized in such categories and customers do not have strong preferences. It is unrealistic to expect a customer to travel to the other end of the city to buy his favorite shirt. But super premium brands, even in such categories command high brand loyalty and exclusive dealership can be granted for such high-end brands.

Exclusive dealing can reduce competition and make the dealer lackadaisical. This may be against the customer's interest as he no alternate recourse. There is also danger in an exclusive channel arrangement. Since the level of commitment of both the channel member and the manufacturer are higher, in case of estrangement, both are likely to fight bitterly. 3. Channel integration Degree of channel integration varies widely. The manufacturer or any particular intermediary has minimal control when independent wholesalers and dealers and agents are part of the distribution channels. At the other extreme, in the wholly-owned distribution infrastructure, the channel members are owned by the manufacturer who exercises complete control over them. Somewhere in between are arrangements like franchise operation where both franchiser and franchisee exercise power and discretion in their areas of jurisdiction. Conventional marketing channels The independence of channel intermediaries means that the manufacturer has little or no control over them. Arrangements such as exclusive dealing may provide a degree of control but separation of ownership means that each party will look after his interest. Conventional marketing channels are characterized by hard bargaining and occasional conflicts. For instance, a retailer may believe that cutting the price of a brand may be necessary to move stock even though the manufacturer objects to this because of a possible damage to brand image. Separation of ownership means that each party can specialize in the function in which it has strengths – the manufacturers produce and intermediaries distribute. But manufacturers need to stay in touch with customers and not abdicate complete responsibility of maintaining contact with customers to retailers. A manufacturer who dominates a market through its size and strong brands may exercise considerable power over intermediaries though they are independent.

Traditionally manufacturers exercised control over intermediaries because their brands drove business in retail stores and retailers felt dependent on them. The manufacturer rationed the supply of hot brands, forced the retailers to carry their full range, and made them participate and contribute in their promotional programs. But with consolidation and emergence of retail chains, the balance of power has shifted dramatically. The retail chains enjoy enormous clout with customers and they have huge buying power. The retail chains also have strong brands of their own in most categories. The manufacturers now are dependent on the retailers and the later are extracting their pound of flesh. The retailers demand slotting fees for new products, carry only the hot selling brands, require frequent replenishment from manufacturers, and expects the manufacturer to participate and contribute in the store's promotion programs. The relationship between the manufacturer and the intermediaries is governed by balance of power between the two parties. Both manufacturers and retailers have been guilty of exploiting the vulnerable party whenever they have been strong. Manufacturers did it earlier, retailers are doing now. But this is not a good ploy. The economics of a supply chain dictates that an activity should be done at a point in the chain where it can be done most efficiently and effectively, so that the cost structure of the supply chain is improved and there is more profit for every player. The extra profit should be divided among the partners depending on the efforts expended by the players. A supply chain operated by dictum of the more powerful party will be inherently inefficient compared to the one based on cooperation between the parties. The powerful player will shift activities to the more vulnerable player even when the powerful player could do that particular activity more efficiently and effectively. The result is an inefficient supply chain with less profits for all the players. And a large part of the smaller profit is appropriated by the powerful player, leaving the weaker players disgruntled and less willing to cooperate. And more dangerously the vulnerable players are always looking at ways to get back at their tormentors. It is time the manufacturer and the independent channel intermediaries shifted the basis of relationship from power to rational distribution of activities in the supply chain and equitable distribution of profit amongst themselves. Franchising A franchise is a legal contract in which the manufacturer or the producer and the intermediary agree to each member's rights and obligations. The intermediary receives marketing, managerial, technical and financial services from the producer in return for a fee. For instance, McDonald's combines strengths of a large sophisticated marketing oriented organization with energy and motivation of a locally owned outlet. Franchise operation gives the manufacturer certain degree of control. A franchise agreement provides a vertical marketing system in which there is a formal coordination and integration of marketing and distribution activities between the manufacturer and the intermediaries. Franchising occurs at four levels: A. Manufacturer and retailer: The manufacturer gets retail outlets for its car and repair facilities without the capital outlay required with ownership. B. Manufacturer and wholesaler: Companies like Coke and Pepsi grant wholesalers the right to produce and bottle their concentrate and to distribute the products within a defined geographic area. C. Wholesaler and retailer: This is not common but is found with hardware stores. It allows wholesalers to secure distribution of their products to consumers. Wholesalers acquire the rights to distribute products of manufacturers or buy products from the manufactures. Wholesalers sign up retailers to distribute these products to final consumers. D. Retailer and retailer: A successful retailing operation seeks to expand geographically by means of franchise operation. For instance, Benetton and McDonald's have used this approach to expand their operations geographically. In all franchising arrangements, it is imperative that profits are distributed equitably among both parties. The structure of the agreement between the two parties should be such that profits are divided equitably. When intermediaries are required to pay a fat upfront fees, and

Self-Instructional Material 195 Overview of Product Management NOTES

the manufacturer takes only a small or no share of the profit generated at the intermediaries' end, the manufacturer has no major financial motivation to ensure that the intermediaries earn profits. But when the intermediaries pay small or no upfront fees and the manufacturer shares the profit generated at the intermediaries' end, the manufacturer becomes interested in the profitability of the intermediaries.

McDonald's follows this practice and ensures that its franchisees earn profits and take a share in the profits.

Channel Ownership Total control over distributor activities comes with channel ownership by the manufacturer or an intermediary. This establishes a corporate vertical marketing system. By purchasing retail outlets, manufacturers control the purchasing, production and marketing activities of these outlets. In particular, control over purchasing means a captive outlet for manufacturers' product. Purchase of Pizza Hut by Pepsi has tied these outlets to the company's soft drink brands. Advantage of control have to be weighed against the high price of acquisition and the danger that the move into retailing will spread managerial activities too widely. 8.13.2 Channel Management The manufacturer has to select the intermediaries who will carry his products. The chosen intermediaries have to be trained in specific areas like the working of the product being carried, art of selling, in merchandising, and in other areas depending on the requirement of the business. The intermediaries need to be motivated to eagerly push the manufacturer's product. The manufacturer may offer him financial or non-financial incentives. It is very important that the intermediaries are evaluated periodically in terms of the functions that they are required to perform. And finally, the manufacturer has to resolve conflicts arising among members at the same level or among members at different levels of the distribution channel. z Selection For small and new manufacturers, not many intermediaries are willing to carry their products, therefore the problem is more of channel members accepting to distribute the manufacturer's product than channel selection. These small manufacturers have to convince key channel intermediaries (especially retailers) to stock their products by offering them extra incentives and by convincing them that the product would sell by showing market research data that they may have collected.. But established manufacturers do have a choice and a number of members may be willing to carry the manufacturers' products at each level. The manufacturers have to identify such candidates and develop selection criteria to choose appropriate members from them.. Identifying Sources Sources for identifying candidates include trade associations, exhibitions, trade publications, reseller enquiries, and customers of distributors. Sometimes channel members (retailers and wholesalers) may be proactive in contacting a manufacturer to express an interest in handling their products. Such reseller enquiries show that the possible distributor is enthusiastic about the possibility of a link. Customers of distributors are useful source since they can comment on their merits and limitations. If a manufacturer already has a field salesforce calling on intermediaries, salespeople are in a good position to seek out possible new distributors in their own territory. The use of target country based distributors is a common method of foreign market entry. Sources of identifying overseas distributors are personal visits to search the market, the national trade board, customer and colleagues' recommendations and trade fairs. Developing selection criteria Common selection criteria include market, product and customer knowledge, market coverage, quantity and size of salesforce, reputation among customers, financial standing, extent to which competitive and complementary products are carried by the prospective

196 Self-Instructional Material Overview of Product Management NOTES intermediary, managerial competence, and degree of enthusiasm for handling manufacturer's lines. Large, well established distributors may carry many competing lines and lack enthusiasm for more lines. Small distributors may be less financially secure and have a small salesforce but be more enthusiastic. Top selection criteria of overseas distributors are market knowledge, enthusiasm for carrying the product, customer knowledge and fact that the distributor does not carry competing products. z Motivation The key to effective motivation is to understand the needs and problems of distributors. Some distributors may value financial incentives, others may prefer exclusive territorial rights. Possible motivators include financial rewards, territorial exclusivity, providing resource support (advertising, promotional support) and developing strong working relationship. Management of independent distributors is best conducted in the context of informal partnerships. Manufacturers develop strong relationships with their distributors based on a recognition of their performance and integrated planning and operation. Decisions should be based on jointly determined sales targets and assurance of long-term business relationship. Overseas distributors may fear that they will be replaced by the manufacturer's salesforce once the market has been developed. Popular methods to motivate overseas distributors are territorial exclusivity, provision of up-to-date product, regular personal contact, appreciation of their effort, understanding of distributors' problems, financial incentives and provision of manufacturer's salespeople to support distributor's salesforce. z Training Training provides necessary technical knowledge about a manufacturer and it products and helps to build a spirit of partnership and commitments. Big retailers may feel insulted in being asked to be trained by the manufacturers but they have to be convinced about the benefits of having a thorough knowledge of the products they are selling. Small distributors may welcome the training efforts by manufacturers as they will lack the resources to undertake the task themselves. Providing product and company knowledge is the most common area of training but training should be provided in sales, marketing, financial management, stock control, personal management. Big retailers may have the expertise and the scale to conduct such training themselves and manufacturers should not be reluctant to learn from their channel members. Manufacturers can learn from Wal-Mart in areas such as stock control and personnel management. But smaller intermediaries with lesser resources, scale, and expertise can improve their performance if the manufacturers imparted training in areas such as sales, marketing, financial management, inventory control etc. z Evaluation Evaluation provides the information necessary to decide which channel members to retain and which to drop. Shortfalls in distributor skills and competencies is identified through evaluation, and appropriate training programs can be organized by the manufacturers. Evaluation may be limited where power lies with the channel members. Channel members may be reluctant to provide the manufacturers with comprehensive information on which criteria to base evaluation. When manufacturer power is high through having strong brands and from having many distributors from whom to choose, evaluation may be more frequent and wider in scope. Evaluation criteria include sales volume and value, profitability, level of stocks, quantity and position of display, new account opened, selling and marketing capabilities, quality of service provided to customers, market information collected, feedback provided,

Self-Instructional Material 197 Overview of Product Management NOTES ability and willingness to keep commitments, attitude and personal capability. It is important that the manufacturer knows the ability and the performance of the channel members on these individual parameters. The manufacturer should also develop a comprehensive picture of its channel partners by linking the abilities and performance of the channel partners with their own requirements and requirements of their customers. For overseas distribution, sales related criteria are most widely used. Sales volume, sales value and creating new businesses are three of the most popular measures. Mutually agreed objectives and parameters to evaluate performance should be used since it is consistent with partnership approach to channel management. It does not help either party if the channel members feel that the parameters on which they are being evaluated by the manufacturer are not really important for the business, or the objectives that the manufacture is seeking to achieve is too ambitious. z Managing conflict The intensity of conflict can range from occasional, minor disagreements that are quickly forgotten, to major disputes that fuel continuous bitter relationships. Sources of channel conflict The major sources of channel conflict are differences in goals, differences in views on the desired product lines carried by channel members, multiple distribution channels and inadequate performance. z Differences in goals Most channel members attempt to maximize their own profit. This can be done by improving profit margin, reducing inventory levels, increasing sales, lowering expenses and receiving greater allowances from suppliers. In contrast, manufacturers benefit from lower margins, greater channel inventories, higher promotional expenses and fewer allowances given to channel members. These are the inherent areas of conflict. z Differences in desired product lines Resellers who grow by adding product lines may be regarded as disloyal by their original suppliers. The manufacturers of the primary products perceive the reseller as devoting too much effort to selling secondary lines (a retailer selling books, magazines starts selling computer disks, videotapes). Alternately retailers may decide to specialize by reducing their product range. There is a growth in the number of specialty shops selling, for instance, athletics footwear. A sports outlet that decides to narrow its product range will increase the assortment of specialized items that make it distinct. This displeases the original supplier of these product lines since addition of competitor's brands makes the retailer appear disloyal. z Multiple distribution channels In trying to achieve market coverage a manufacturer may use multiple distribution channels. A manufacturer may decide to sell directly to key accounts because of their size and deprive channel members of lucrative orders from key accounts because they are being sourced directly by the manufacturer. Disagreement can also occur when the manufacturer owns retail outlets that compete with independent retailers who also sell the manufacturer's brand. Increasingly manufacturers are offering the same product lines to different retail formats. The manufacturer may decide to sell a product line through a specialty store, a departmental store, and a discount store to increase coverage. Since these different retail formats compete differently from one another, it is unfair to expect all the retail formats to provide the same level of services and prices to customers and compete similarly. The manufacturer should allow the various retail formats to decide their own level of service and price and let customers decide which format they will buy from.

198 Self-Instructional Material Overview of Product Management NOTES z Inadequacies in performances of channel members and manufacturer A channel member may underperform in terms of sales, levels of inventory carried, customer service, standards of display and salesperson effectiveness. Manufacturers may give poor delivery, poor quality goods and incomplete shipments. Avoiding and resolving conflict z Developing a partnership approach There should be frequent interaction to develop mutual understanding and cooperation. Manufacturers can provide training, financial help and promotional support. Distributors may agree to mutually agreed sales targets. Organizing informal exchanges between employees of the manufacturer and the channel members allows each party to understand the problems and tensions of the other party. When conflicts arise there is more chance that they would be resolved in the spirit of cooperation. z Training in conflict handling Staff who handle disputes need to be trained in negotiation and communication skills. They should be able to handle high pressure conflict situations without resorting to emotions and blaming behavior. They should identify win-win situations, handle situations calmly and should be able to make concession without hurting their own interests. z Market portioning To reduce conflict arising from multiple distribution channels, manufacturers can partition markets on mutually acceptable basis such as customer size or type. Alternatively different channels can be supplied with different product lines. Hallmark sells its premium greeting card under its Hallmark brand name to upmarket departmental stores and its standard cards under the Ambassador name to discount retailers. z Improved performance When the manufacturer and channel members improve their performance in their respective areas, the source of conflict disappears. Improving performance in areas of concern to the other party is better than trying to placate him by offering concessions, like a manufacturer allowing higher margins to retailers instead of increasing the frequency of supply to the store or a retailer agreeing to stock all the products of a manufacturer's line, instead of prominently displaying the manufacturer's new products in the store as desired by him. z Channel ownership An effective but expensive way to resolve conflicts is to buy the other party. Conflict can still occur but the dominant partner can resolve them quickly. For instance, Manufacturer owned outlets are the norm with Bata worldwide. z Coercion One party forces compliance through the use of force. The manufacturer can threaten to withdraw supply, deliver late or withdraw financial support. Channel members can threaten to delist the manufacturer's products, promote competitive products and develop own label brands. 8.14 PROMOTION MIX Most companies erroneously focus almost exclusively on advertising to convey their messages. But there are companies like Body Shop, which have been able to build strong brands and garner large market shares without any advertising. They have used other methods of communications like publicity, sponsorship, and word-of-mouth promotion to convey their brand ideas. The question is not whether a company should primarily rely on Check Your Progress 19. What are the factors that determine channel design? 20. Define what market portioning is?

Self-Instructional Material 199 Overview of Product Management NOTES advertising or any or more of other communication methods like sales promotion, publicity, sponsorship etc. The real issue is how a company can use all possible or some communication methods holistically so that it is able to convey ideas and messages that register in the minds of customers and make an impression. Most of the time a prudent mix of communication methods will leave a more lasting impression in the customers' minds than any one method alone. A marketer's challenge is to devise the appropriate communication / promotion mix (advertising, sales promotion, public relations, sponsorship, word of mouth promotion, exhibitions, and direct marketing) that will serve his purpose. Therefore it becomes important to understand other methods of marketing communication besides advertising. 8.14.1 Non-traditional Methods of Communication A marketer's primary communications tools are media advertising, direct mail advertising, telephone selling, trade shows, and personal selling. The cost per message is lowest for advertising and highest for personal selling. Telephone and personal selling offer flexibility in tailoring the message to the target prospect but at a substantial cost. Marketers had to be content with mixing and matching these tools to get a synergistic effect. Emergence of new communication tools have enhanced the ability of marketers to develop a more integrated, tailored, and cost-effective communication program. z National account management – A few large customers account for a disproportionately large part of any company's sale in both consumer and industrial markets. A team headed by a national account manager is made responsible for understanding and serving the needs of these big spenders and maintaining profitable relationships with them. The national account manager is responsible for coordinating people who work in other divisions of the seller company, or in other functional areas so that the customer needs are served well. The national account manager is able to understand the requirements of his customer because of his long and focused association with him and therefore can offer the most suitable products and services to him. z Demonstration centers – These are specially designed showrooms that allow customers to observe and try out complex products. A variant of the approach is a traveling demonstration center in which the equipment for sale is mounted in a trailer truck. They provide a competition-free environment for selling process. z Industrial stores – When the sale is too small to justify sales calls, customers are asked to travel to the company's stores. The stores also serve as demonstration centers. Stores are permanent, but the same concept is used by companies that present customer seminars and demonstrations in hotels, trade shows, and other temporary facilities. z Telemarketing – It has been in vogue for long but it has received new impetus as a communication method. Companies are using telemarketing to solicit orders from customers, to listen to customer grievances, to solve customer problems, and to inform customers of the company's new offerings. Software gadgets are being used in conjunction with telemarketing which enables the company to respond immediately to customers' requests and queries. 8.14.2 Sponsorships Sponsorship is a business relationship between a provider of funds, resources or services and an individual, event or organization which offers in return some rights and associations that may be used for commercial advantage. Sponsorship allows a business to demonstrate its affiliation to the individual, event, or the organization that it has chosen to associate with. The patrons or enthusiasts of the sport, event, organization, or the individual that the business is sponsoring should be current or prospective customers of the business, and they should feel grateful to the business for

200 Self-Instructional Material Overview of Product Management NOTES helping out their favorite individual, event, sport or organization. The idea of sponsorship is to develop strong relationships between the business and its customers due to their common ties with the sponsored individual, event, sport, or the organization. Objectives of sponsorship z Gaining publicity Sponsorship provides an opportunity to create publicity in the news media. Worldwide events such as major golf, football, tennis tournaments supply the platform for global media coverage. Millions of people watch these events. Sponsorship of such events can provide brand exposure to millions of people. Some events such as golf have a more upmarket profile. The publicity opportunities of sponsorship can produce major awareness shifts. Sponsorship can create entertainment opportunities for customers. Sponsorship of music, the performing arts, and sports events is particularly effective in this regard. Attendance at sponsored events can be used to reward successful employees, customers and trade partners. z Fostering favorable brand and company associations Sponsoring a mega event like Olympics or Soccer World Cup ensures almost instant international recognition. There is huge amount of prestige associated with sponsoring such big events and the sponsoring companies' credibility soars up. They are considered as big as the events they are sponsoring as it is known that big money is involved in sponsorship deals of such events. A company advances to the big league as soon as it associates with a mega event. But a company can also foster favorable brand associations by sponsoring special events like some arts or some charities. The patrons of the events will start seeing the sponsoring company favorably. z Improving community relations Sponsoring an event or an organization which will help the community where the event is being organized or where the organization functions is always a good idea. Sponsorship of schools, for instance, by providing low cost computers and supporting community programs, can foster a socially responsible, caring reputation for a company. Developing community relations is the most usual sponsorship objective for both industrial and consumer companies. There are usually many such opportunities to help a community. Two or more companies can join hands to sponsor a program beneficial to the community where they are based. z Creating promotional expenditure Bags, pens etc. carrying the company logo and the name of the event can be sold to a captive audience. Flags and banners bearing the name of the company and the event can be displayed at the site of the event and outside to boast of the association. This is especially important when there are many companies sponsoring the event. It is important that the company takes leverage of the association between itself and the event by promoting the association aggressively. Where the brand can be consumed during the event, it provides an opportunity for customers to sample brands. Expenditure on sponsorship Expenditure on sponsorship is increasing due to: z Restrictive government policies in some products, such as prohibition on tobacco and alcohol advertising. z Escalating costs of media advertising. z Increased leisure activities and sporting events.

Self-Instructional Material 201 Overview of Product Management NOTES z Greater media coverage of sponsored events. z The reduced efficiencies of traditional media advertising. z Although most money is spent on event sponsorship such as sports or arts events, of increasing importance is broadcast sponsorship where a television or radio program is sponsored. z An event may be sponsored by one company but coverage of the event may be sponsored by some other company. Selection Sponsorship can be a one-off deal or it can be a continuing association. While the promotional leverage from sponsorship is important, it is more crucial to assess the impact that the association will have on the perceptions of the customers and other stakeholders towards the company. Selection of an event or a program to sponsor should be undertaken by answering a series of questions: z What the company wants to achieve from the sponsorship deal Is the company looking for increased brand awareness? Or does the company want to improve its image, or its community relations? Or is it looking for entertainment opportunities for its customers and employees? The choice of the individual, the event, or the organization that the company will sponsor should be governed by what it wants to achieve from the sponsorship deal. If the company wants increased brand awareness, it should get associated with mega events like Soccer World Cup. If it wants to improve its relations with the community it is a part of, it should a sponsor a literacy program for the locality. And if the company wants to improve its image, it should sponsor a dying art or an event which would not take place if the company does not pitch in. z Personality of the event should match the desired brand image It is easy to get enticed by the promotional opportunities of mega events but if that is all that the company is looking for in a sponsorship deal, it will be better off putting the money in advertising. It will at least have more leverage in deciding how to spend the money in advertising than it has when it puts the same money in a sponsorship deal. Sponsorship should be used to shape the personality of the sponsoring company. If the company sponsors a prestigious golf tournament the motive should be to bestow an image of exclusivity to the company. The company should be very clear about the type of image that it wants to portray and then associate with an individual, an event, or an organization that has a similar image. z Target market The profile of the company’s customer base should match the likely audience of the sponsored event or program. One of the most important objectives of a company entering any sponsorship deal is to influence its customers. This can only happen when the enthusiasts of the sponsored event are also the customers of the company. The enthusiasts of the event should feel grateful to the company for having sponsored their favorite event or sport. z Risk What are the chances that the event or program might attract adverse publicity? The sponsoring company should dig deep to find the individual’s, the event’s, or the organization’s character and other associations. And as soon as the skeletons in the cupboard of the sponsored event, individual, or the organization are out, the sponsoring company should publicly declare discontinuance of the relationship between the two. Any dithering on the issue would damage the interests of the sponsoring company. The

202 Self-Instructional Material Overview of Product Management NOTES company should try to ensure that its stakeholders are not hurt because of its association with the individual, the event, or the organization. Evaluation Understanding sponsorship objective, i.e. why an event or program is being sponsored, is the first step in evaluating its success. Formal measurement of media coverage and name mentions and sightings, and the change in perception of the company's stakeholders have to be undertaken. It is important that there is a formal system to find out the gains from a sponsorship deal. It is often convenient to believe that gains would have accrued from the association with the event. It is also important to qualify the gains for the company in terms of whether it primarily gained awareness or whether it was able to improve its relationship with the community, or some other gain. The results of the evaluation process will be useful when the company is considering a sponsorship deal in future or when it has to decide the continuation or termination of a sponsorship deal 8.14.3 Exhibitions Exhibition is the only promotional tool that brings buyers, sellers and the competitors in a commercial setting. Since customers have to spend time and money in attending an exhibition, customers who attend an exhibition are interested in the product. In that sense exhibitions as a promotional tool is very targeted i.e. only the intended audience gets the message. Exhibitions are usually designed to create a form of mass hysteria. Some exhibitions are annual affairs and attract lot of media attention which helps in attracting more customers and also more exhibitors. They are very expensive as only a small numbers of customers can be accommodated in an exhibition. Also space is very expensive in popular exhibitions and there is lot of expenditure in logistics. Exhibitions are an important part of the industrial promotional mix. Exhibitions as a source of information in industrial buying process is second only to personal selling and ahead of direct mail and print advertising. Overall, the number of exhibitions, exhibitors and visitors is growing. Objectives of exhibitions z An opportunity to reach an audience with a distinct interest in the market and the products on display Though organizers of exhibitions insist on creating hype so that numbers of visitors to the exhibition increases, it is always better to have customers who are genuinely interested in the product even if they are small in number. The cost per customer is very high in exhibitions It is very important that personnel in the stall handles only genuine customers and their contact time should not be wasted on casual visitors. z Creates awareness and develops relationship with new prospects There is face-to-face contact with customers and the marketer has an opportunity to apprise the customers of the company's products. The marketer should qualify his visitors in terms of their interest in the product so that they can be pursued after the exhibition. z Provides product demonstrations The customer has an opportunity to see the product in operation. He can determine if it will be useful to him. He can also seek clarifications about the product's features and benefits. z Determines and stimulates needs of customers Product demonstration is very effective method of stimulating needs. When a customer sees the benefits of a product, the needs that he might have been suppressing or those

Self-Instructional Material 203 Overview of Product Management NOTES that he was not aware of can become manifest. Many visitors who may have walked in with only casual interest become genuinely interested in the product. Since customers come in direct contact with marketers it is possible to judge the intensity of customers needs. z Gathers competitive intelligence Competitors' products are also displayed in the exhibition and it is easy to study the features and benefits of their products. It is also possible to meet employees of the competitors and learn more about their marketing plans. z Introduce a new product Exhibition is very good place to get customers' feedback about a new product. Customers can use the product or see it in operation and provide immediate feedback to the company. The company can also find out how the new product compares with competitors' products. z Recruit dealers or distributors Distributors interested in handling the product inevitably attend the exhibition. Manufacturers can establish contact with them at the exhibition. This is especially important for new manufacturers who do not have much idea of the market and hence are not aware of the distribution arrangement of the market. Even for established manufacturers exhibitions are a good place to recruit new distributors. z Improve company image The company comes in direct contact with customers and distributors. Company has an opportunity to impress its customers and distributors with its preparation and arrangement of the event and demeanor of its employees. A shoddy and mismanaged stall will leave the customers and distributors guessing about the competence of the company. z Deal with service and other customer problems The customers get an opportunity to apprise the company of their service requirements and specific problems that they may be having with the product. Since senior executives of the company are present at the exhibition, this is a good opportunity for them to get first hand feel of customers' woes and worries. z Make a sale An exhibition is always a good place to book orders from customers though this may not be a major objective of the company. They pay more attention to educating their customers and getting their feedback. In no medium advertising, publicity, sales promotion, product demonstrations, sales staff, key management personnel, present customers and prospects join together in a live event. It offers the company the opportunity to impress customers with its operations and products. Planning for an exhibition z Clear objectives should be set Objectives may include introducing new products, showcasing the company's range of products, recruiting distributors, making sales, etc. It is important that objectives are clear to the executives who are planning participation in the exhibition and to the executives who will be manning the stall. The design of the stall and the choice and conduct of employees will reflect the objectives that the company has set. For example, if the main objective for participating in the exhibition is to introduce a new product, there should be considerable space in the stall for product demonstration to take place.

204 Self-Instructional Material Overview of Product Management NOTES Design and operations people should be manning the stall who can explain the new product's features and benefits and who can handle queries and problems of customers. z Selection criteria for evaluating visitors should be determined Many types of visitors attend the exhibition. Some of them want to see a product in operation, some of them have problems with the company's products that they are using and want to meet executives of the company to apprise them of the problem, some of them are interested in handling the company's products as distributors, some of them are on the look out for latest technologies and machines which would be useful to them, whereas some stroll in to see what all this noise and crowd is about. It is important to qualify the visitors in terms of their purpose of their visit. When the purpose of the majority of visitors is aligned with the purpose of the exhibitors, it is a successful exhibition. z Design strategies The managers of the exhibition should have as a plan as to who will receive the visitor, who will classify them according to the purpose of their visit, who will register them and obtain information, who will direct them, where would the products would be placed, where would product demonstration take place and who would carry it out, who would handle customers' queries, who would maintain the list of leads that have to be followed, and finally how would the visitor exit the stall. The managers should have a mock run of the plan to find loopholes in it. A disorganized stall would leave visitors frustrated as they would not get the right information. The company would not gain from such an exhibition as it will not be able to collect the information that it wants and visitors would have left the stall with a bad impression of the company. z Promotional strategies The company should decide as to how it will attract the right type of visitors to the stall. Pre-show promotions to attract visitors to the stand include direct mail, telephoning, a personal sales call before the event and advertisements in trade or technical press. The characteristics of a good exhibitor z Exhibits a wider range of products, particularly large items that cannot be demonstrated on sales call z Staff is well informed and always in attendance at stand z Informative literature is available for visitors z Seating arrangement or office is provided on the stand Evaluating an exhibition Quantitative measures should be collected for: z Number of visitors to the stand z Number of key influencers and decisions makers who visited the stand z Number of leads and enquiries generated z The cost per lead and enquiry z Number and value of orders z Cost per order z Number of new distributors opened or likely to be opened z Worth of competitive intelligence gathered z Interest generated in new products

Self-Instructional Material 205 Overview of Product Management NOTES z Cultivation of new relationships z Value of customer query and complaint handling 8.14.4 Word of Mouth Promotion z Engender word-of-mouth promotion. Do not leave it to chance. Every marketer understands the power of customers talking well and excitedly about a product or a service. When a customer talks about a product and recommends it to other customers, he is more credible as he is not perceived to have any vested interest in promoting the product. And a customer is always willing to talk when he finds a product or service exciting enough to talk about. Word-of-mouth promotion has become an increasingly potent force because customers are now able to connect with large number of fellow customers instantly and simultaneously with the help of new technologies. But companies have no clue about when and how customers start talking about the products or services that they have encountered. Most marketers have resigned to their belief that word-of-mouth promotion depends on the whims of the customers and they can do nothing to make the customers talk about their products. But there is method in the madness and companies would do well to learn how they can engender and manage word-of-mouth promotion. z When designers conceive and design a product or service, their focus is on satisfying the need of the customers be it functional or aspirational or anything else. Designers do not incorporate features, benefits or styles because they want customers to talk about it. This will have to change. Designers will have to design, incorporate and exaggerate features, benefits and styles which the customers will rave about. The product or the service has to be designed and tested for "talkability" i.e. does the product have the features, benefits and styles which is going is stir the customers' mind. "Talkability" of a product or service is not left to chance. "Talkability" is purposely incorporated in the product or service. For this to happen a company will have to study customers and find out what will excite them enough to talk about it. Given the value word-of-mouth promotion creates, it is only right to divert some portion of the advertising budget in incorporating "talkability" in the product or service. z Not all customers of a product or service talk with the same passion or equally profusely. It is important to identify customers who are likely to talk profusely and with passion and provide the product or service to them early, even free, if they are not forthcoming in buying the product or service. A book publisher would do well to put a text book in the hands of the most meritorious students of a class, a restaurant should invite a well connected socialite or film star to celebrate his birthday on his premise, and a maker of software program would ensure lot word-of-mouth promotion if the first copies were distributed to the most sophisticated users. The idea again is to locate customers who are likely to get excited more about the product or the service than others and invest in them. The first customers of a product or service should always be customers who will feel passionately about the product for some reason or the other. z Customers will talk more if they have the product and believe that everyone cannot have it. It will help if there is a perception among customers that the product will run out of supply or will be phased out. This will not be a gimmick. A company can have a strategy of selling only in limited numbers and only for limited period. Though this strategy may not work for all types of products but since most companies are already launching new or modified products more frequently, only the way the new product or service introduction is managed will have to be changed to make it applicable to every product. So instead of declaring one fine morning that a new model is being launched, the company could have declared at the launch of the current model, that the model

206 Self-Instructional Material Overview of Product Management NOTES would be phased out in a particular time, when a new model would be launched. Companies are introducing new models and phasing out old products anyway, they only have to dramatize the events of introduction and phasing out. z Celebrity endorsement is not creating the buzz it could, because customers consider them just high-profile models without any interest or involvement in the product. Endorsement obviously helps. But people are interested in more ways in celebrities than merely watching them in an advertisement. People are interested in knowing about the lives of celebrities – the brands they wear, the way they raise their children, the way they celebrate their birthdays and from where they buy gifts for their girlfriends and in the minutest details of their lives. If the product or service is seen as a part of the daily life or business of a celebrity, it will be talked about immensely. A company should seek the celebrity to use the product, be seen using it and boast about using it. z Rankings by credible agencies and experts draw attention of customers. Movies and books are regularly reviewed and customers heed them when they are making their purchase decisions. More and more products and services are being ranked by experts and though there is fear of clutter due to excessive sprouting of such experts and agencies, customers do heed the rankings and opinions of these experts and agencies. It is important to manage these rankings. A top ranking in a list can create a lot of buzz. A company should find out the evaluative criteria of these experts and agencies and make their product or service strong on those criteria. A lot of hype is created when service facilities like business schools, restaurants and hospitals are ranked by credible agencies. Ranking drives lot of business in services like business schools where a wrong choice impacts customers in big way but where customers have no way of knowing about it except from ex-customers who are difficult to track. z Customers may sincerely want other customers to be benefited in the way they have been benefited. The company will have to channelize the desire of the customers to be benefactors. The company has to organize forums and activities like discussion forums and rallies, where customers can talk and participate and urge other customers to adopt the product or service that they have adopted. Cures for long-standing illnesses can be promoted in this fashion. z Though word-of-mouth will not harm prospects of any product or service, it is sine qua non for fashion goods. The company will have to be on the look for trends, styles and colors which can become hot in the future. The company will have to be with the trend and the next cool thing when it happens, and not be left behind. Being in with what is a rage ensure plenty of word-of-mouth promotion. It is time marketers applied themselves in engendering buzz rather than leaving it to good fortune. z Increasing power of word of mouth leads to formation of communities of customers. Companies can use this to generate positive buzz about their offerings. Customers can connect instantly and simultaneously with large number of people. And customers are eager to let their opinion be known to others. Products and services have been hugely successful without being promoted, their success based on strong promotion by the customers themselves. Whereas some heavily promoted products have also tanked with customers' negative word of mouth contributing in no small way. Customers have a huge influence on other people like themselves. There is also a strong propensity among customers to imitate what others are doing. Since today customers are in a better position to know what others are doing, word of mouth has become a very potent weapon. Companies like Harley-Davidson and Mountain Dew Soda are building communities around their products to leverage the influence their customers

Self-Instructional Material 207 Overview of Product Management NOTES have on other people like themselves. This is an effective method to channel customers' propensity to talk about their experiences with products and services. z Marlboro is strengthening its brand by resorting to buzz marketing. The legendary brand Marlboro is now 50 years old. When the brand had started out, it used mass marketing to reach out to its consumers. The image of the rugged cowboy epitomizing freedom and cool attitude were etched in the memories of consumers. But now Marlboro is actively using buzz marketing to remain at the top. In the tobacco industry characterized by heavy restrictions on advertising, Marlboro has done an admirable job of strengthening its brand image. All this at marketing costs that have witnessed a continuous fall each year. This is in contrast to the rest of the industry. Its new age tactics include marketing at "live" events that encourage internet chat, sign- ups for promotional offers, a website where smokers sign up for discounts, price promotions and direct mail. Marlboro has a growing database of 26 million of its customers who are sent greetings on several occasions besides exclusive offers for various events. Customers do not treat Marlboro as a brand, it is like an exclusive club of which they are all devoted members. The anniversary bash held by Marlboro is a significant event. Marlboro faithfuls are rewarded with special gifts and trips with lavish spreads that competitors find hard to match. These sweepstakes together with many contests and events sponsored by Marlboro brings the smoking community together. These experiences are shared by loyalists, and contests attract a big online community of smokers. Customers get to know each other and become friends. Similarly, news and developments about Marlboro are transmitted to millions of consumers in no time. Marlboro also offers several discounts and incentives to retailers. It also focuses on shelf displays and consumer promotions mostly by presenting them with attractive schemes. Marlboro patronizes the smoking community, and in a world where smoking is increasingly being denounced, smokers feel gratified of the company's efforts to acknowledge them and safeguard their interests. When the world denounces smoking and smokers, Marlboro celebrates smokers and their smoking. There cannot be a better way to engender loyalty. 8.15 ADVERTISING Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. Advertisements can enhance sales only if they promise a benefit to the consumer. The promise must be persuasive, unique and relevant to the consumer. 8.15.1 How Advertising Works z Strong theory A consumer passes through the stage of awareness, interest, desire and action (AIDA). The theory advocates that advertising is strong enough to increase people's knowledge and change their attitudes. It is capable of persuading people who had not previously bought the product, to buy it. Conversion theory of advertising states that non buyers are converted to buyers. Advertising is assumed to have such a powerful influence on consumers that new customers are persuaded to buy the brand. This theory has been criticized on the grounds that for many products, consumers do not experience a strong desire (to buy) before action (buying). For inexpensive products, Check Your Progress 21. What do you understand by the term sponsorships?
208 Self-Instructional Material Overview of Product Management NOTES a brand may be bought on a trial basis without any strong conviction that the product that has been purchased is superior to competing brands. The model is also limited to the conversion of non-buyer to the buyer. It ignores what happens after the first purchase. Yet in most mature products, advertising is designed to affect people who have already bought the brand at least once. z Weak theory According to this theory, the decision making steps for a consumer are awareness, trial and reinforcement. Advertising is believed to be much less powerful. Advertising may arouse awareness and interest, and nudge some customers towards the first purchase. The purchase provides reassurance and reinforcement, meaning that the consumer liked the product. Strong AIDA-like desire or conviction may not be needed before the first purchase is made. In fast moving consumer goods markets, loyalty to one brand is rare. Most consumers buy a repertoire of brands. The share of spending of a consumer on different brands shows little variation over time, and new brands join the repertoire only in exceptional circumstances. A major objective of advertising in such circumstances is to defend brands. It does not work to increase sales by bringing in new buyers to the brand advertised. Its main function is to retain existing customers and sometimes to increase the frequency with which they buy the brand. The target is existing buyers who are fairly well disposed to the brand, and advertising is designed to reinforce the favorable perceptions. For high involvement decisions such as the purchase of expensive consumer durables, many alternatives are considered and the information search is extensive. Advertising is likely to follow the strong theory, by creating a strong desire to purchase or by convincing people that they should find out more about the brand (by visiting retail outlets). Since the purchase is expensive, it is likely that a strong desire is required before the purchase takes place. For low involvement purchase decisions, people do not thoroughly consider a wide range of brands before purchase, and the weak theory of advertising applies. Advertising is intended to let consumers do what they are already doing, by providing reassurance and reinforcement. Advertising repetition is important to maintain awareness and to keep the brand on the consumer's repertoire of brands from which individual purchases will be chosen. Developing the advertising strategy 8.15.2

Identify and Understand the Target Audience The target audience is a group at which the advertising is aimed. The target market selection should be preceded by one sound rationale – it should comprise the best prospects that would buy the product. In consumer markets, the target market may be defined in terms of the socio-economic group, age, gender, buying frequency and lifestyle. In business markets, the target market may be defined in terms of the type of industry, order size, product specifications and buyer-seller relationships. It is extremely important to define the target audience with clarity and precision. The advertisement must be intended only for the target audience, and not for others, even if other customers in the periphery are interested in the offering. Else, the organization can feel tempted to reformulate its advertisements for customers who are not a part of the target audience, thus losing focus. A company that wants to focus on the youth audience may find takers for its products among other customers who are older. The advertisement cannot be reformulated to include these older consumers, even though they can be an attractive

revenue making proposition. The mid-path would not be attractive to the intended target audience, the youth. Once the target audience has been identified, it needs to
be understood better. Buyer motives
and choice criteria need to be analyzed. Choice criteria are those factors which buyers use to evaluate competing choices. These in turn are shaped by several other external factors (such as income, social class, reference group influence, culture, buy situations) and psychological factors (such as perceptions, attitude, involvement levels).
Advertising in organizational markets
is particularly interesting since
different members of the decision making unit may use different choice criteria to evaluate a given product. For instance, a purchasing manager uses
a cost-related criteria whereas an engineer places more emphasis on technical criteria. Where costs allow, two different advertisements may be needed, with one stressing cost benefits using media read by purchasing managers, and another focusing on technical issues in media read by engineers.

Consumer decision making may also involve various stages and multiple roles being played by different people, depending on the type of purchase decision being made. The advertiser has to decide the focus of the advertisement in terms of addressing a particular choice criteria employed by an important decision maker. Like in industrial markets, a company may have to make more than one advertisement to address the different choice criteria used by the different players in the decision making process. It is important to decide as to who the advertisement is trying to impress and influence, and then frame its appeal appropriately. 1. Define
advertising
objectives All advertisements should increase sales. Some may induce purchase action immediately (direct action advertising), while some may stimulate demand for a later period (indirect action advertising). The objective of advertising should be to make the consumer buy the company's brand every time he faces a need for the product. Thus, every advertisement must be framed with specific objectives that ultimately lead to an increase in sales. 2.
Establish the
advertising spend The advertising spend is a part of the total communications spend of a company. The company must therefore decide the percentage of advertising spend as one of the components of its integrated communication campaign. 3.
Message decisions

Advertising is not an art form or a creative outlet. It certainly cannot function on intuition, without the backing of sufficient research. A creative advertisement is the one which increases sales. Making an effective advertisement (the one that enhances sales) requires a lot of research about the product that is going to be advertised, the competitor's offerings and the target customer. A 'big idea' (one that sells more product for several years) is always the outcome of a lot of research. The research translates into the advertiser living with the product and its customers. The advertiser should fall in love with the product before he touches the story board. The sure way to kill a product is to assign it to an advertiser who does not get excited at the prospect of handling the advertising of the product. The product and its customers have to become part of the unconscious self of the advertiser. Before a message can be decided, an understanding of the advertising platform should be made. The advertising platform is the basic selling proposition that is used in the advertisement. The platform should be important to the target audience and should communicate competitive advantage. Therefore an understanding of the motives and choice criteria of the target audience is essential for effective advertising.

Advertising is often used to build brand image. Image means personality. Brand personality is the message that the advertisement seeks to convey. It includes the brand name, symbols, advertising style, packaging, price and the nature of the product that is being sold. Brand personality acts as a form of self expression, reassurance, a communicator of the brand's function and as an indicator of trustworthiness. The value of the brand personality to consumers will differ by product category. In self expressive product categories such as perfumes, cigarettes, clothing, brands act as badge for making public an aspect of personality. Brand personality can also act as a reassurance. The personality of a mass brand may convey sophistication and upper classness which may not necessarily correspond with the type of people who buy the brand. What the imagery is doing is providing the reassurance that the brand is socially acceptable. In the long run, the marketer who builds the most sharply defined image of his brand wins the maximum market share. Standardizing advertising is a growing preoccupation of multinational companies. Proponents of standardization point to customer convergence, who share common experience, needs and motivations. Even while adapting advertising messages when trying to penetrate foreign markets, advertisers tend to use stereotypical images of the people in these countries or simply assume that the type of advertising message that is appropriate in the home country would be relevant in foreign markets as well.

Advertising formats Some advertising formats are more effective than others on television. z Humorous advertisements sell but not many writers can write funny commercials. Therefore it should not be attempted unless the advertiser has real talent for it.

z

In slice of life advertisements an actor argues with another about the merits of a product, in a setting which approximates real life. Such realistic and charming slice of life advertisements are effective. z The most effective testimonial advertisements are those which show loyal users of the product testifying to its virtues when they do not know that they are being filmed. The interviewer pretends to find faults with the product and the loyal customer defends the product with far more conviction than if the interviewer simply asked him what he thought of it. When an advertiser

has to

pick loyal users to testify, he should avoid those who would give polished performances. The viewers would think they were professional actors. The more amateurish the performance, the more credible is the testimonial to the audience. z Product demonstration is also able to persuade. Product demonstrations need not be boring. An ad demonstrating the effectiveness of a glue showed the glue being applied to the soles of the announcer's shoes and hanging him upside down from the ceiling. z Advertisements that compare the advertised product with those of competitor by identifying the competitor by name are less believable and more confusing than advertisements which do not. The brand which is being run down in the advertisement is remembered more by the viewers. z Advertisements showing the advertised product providing solutions to common problems also work. z Advertisements in which a pitchman extols the virtues of the product are above average in changing brand preference. Such ads are particularly useful for announcing new products. z In some advertisements a 'character' is used to sell the product for a long time. The character becomes the living symbol of the product. Provided they are relevant to the product, characters are above average in their ability to change brand-preference.

Self-Instructional Material 211 Overview of Product Management NOTES z

Advertisements which give the viewer a rational reason for buying the advertised product are slightly above average in effectiveness. Though advertisers believe that the customers do not care how the product is made, if the company is employing some novel process to make the product, customers do get influenced. z Advertisements which contain news are above average in changing customers' brand preferences. When advertisers have news to tell, which may not be often, they should not underplay it.

z

It is difficult to quantify the effectiveness of emotions in an advertisement. Most advertisers believe that advertisements with nostalgia, charm, and sentimentality are very effective. Emotions can be as effective as any rational appeal, particularly when there is nothing unique to say about the product. Most clients and also some advertisers believe that rational appeals

for products are more important for products

than consumers think they are. They believe that if an

advertising

is going to be successful, if it is going to stand out from the clutter, it must be objective about the benefits of the advertised product. But it is difficult to portray rational benefits of products like ice-creams, cigarettes, candies, beer, etc.

z

Testimonials by celebrities are below average in their ability to change brand preference. Customers assume that the celebrity has been bought. Most of the time customers remember the celebrity but forget the product. z Cartoons sell products to children but they are below average in selling to adults. They do not hold the viewer and are less persuasive. z Musicals are not effective. Probably customers tune in to the music so intently that they tune out the advertised product.

Making television advertising more effective Advertising on television can be improved by focusing on making consumers remember the advertised brand and its distinctive offering, rather than focus only on creative appeals. z Brand name – A very large percentage of customers remember an advertisement but forget the name of the advertised brand. Worse, they attribute the commercial to a competing brand. The advertiser has to take care to emphasize the name of the brand in the advertisement. The brand name should appear within first ten seconds of the advertisement and should be repeated as often as possible. It is possible to do that without irritating the viewer. Like everything else in advertising, the brand name can be mentioned more frequently in an advertisement by being devising creative ways of doing it. A popular devise is to play games with the brand name like spelling it with accompanying music or playing a jingle with the brand name featuring in it prominently. z Package – Advertisements which end by showing the package are more effective in changing brand preference than advertisements which do not. z Appetizing food – In advertisements for food, the more appetizing the product looks the more it sells. It has been found that food in motion looks very appetizing. Showing ice cream in the act of being poured looks very appetizing. z Close-ups – When the product is the hero of the advertisement, a close-up of the product is a good idea. The closer a look the viewers have of an ice-cream, the more they desire it. z Emphatic opening – If an advertisement grabs attention in the first frame with a visual surprise, it has a better chance of holding the viewer. People screen out a lot of advertisements because they have a dull openings. The advertiser knows that the next visuals are great but the viewers do not. They already have switched channels or moved out of the room after seeing the first frame.

212 Self-Instructional Material Overview of Product Management NOTES z Jingles – There are successful advertisements which sing the sales pitch but jingles are below average in changing brand preference. An advertiser should never use a jingle without trying it on people who have not read the script. If they cannot understand the words the advertisement should not be aired. Playing background music is not harmful but can be distracting. z Voice-over – It is difficult to hold the audience if voice-over is used. It is better to have the actors talk on camera z Supers – The promise can be reinforced by setting it in type and superimposing it over the video, while the soundtrack speaks the words. The words in the super should exactly be same as the spoken words. Any divergence confuses the viewer. z Avoid visual banality – The viewer will pay attention if he sees something that he has never seen before. Customers see thousands of advertisements every year but the few they remember are the ones with unique visual impacts. z Scenes – Not many advertisers have the talent to use great many scenes without confusing people. In general, advertisements with plenty of short scenes are below average in changing brand preference. z Mnemonics – A visual device can be repeated over a long time. It increases the brand identification and reminds people of the brand's promise. z Product in use – It is useful to show the product being used, and, if possible the end result of using it. An advertisement of diapers should show how the diaper keeps the baby dry. z Miscomprehension – Most advertisements are not understood by a large number of viewers. The advertisement should state its message very clearly. z Radio commercials Advertising on radio must draw customers to listen, and then remember the brand and its promise. The first thing a radio advertisement has to do is to get people to listen. Surprising them and arousing their curiosity is very important. Once people are listening, the advertisement should talk to them as one human being to another. Listeners have to be involved and charmed. Make them laugh. Because radio is a high frequency medium, people quickly get tired of listening to the same advertisement. So several advertisements should be made. Following suggestions are useful: z Identify the brand early in the advertisement. z Identify the brand often in the advertisement z Promise the listener a benefit early in the advertisement. z Repeat the benefit often. z Celebrity endorsements Celebrity endorsements should be planned thoughtfully. Celebrity values and personality must match those of the brand. Moreover the celebrity should not be overexposed. Featuring a celebrity in an advertisement has its advantages. People look up and watch the advertisement of even an obscure brand when the familiar face of the celebrity pops on the television screen The advertisement and even the brand sometimes, is talked about. There is certainly an initial euphoria when a celebrity signs up for a brand and this is good for any brand, very well known or absolutely fresh. But celebrities do not come cheap and even at exorbitant prices, they agree after lot of persuasion. And celebrities

Self-Instructional Material 213 Overview of Product Management NOTES have immense potential to shape the brand identity because of people's affiliation towards them and their inclination to believe them. But most celebrities are being wasted and that is a shame. Endorsement by celebrities have to be rethought and restrategized. First of all the selection of the celebrity has to be done carefully. The first one who consents should not be hired automatically. The values and the personality of the celebrity have to match closely with the values and the personality that the promoter wants to bestow on the brand. The celebrity has to be attached with the brand for a long time since the persona of the celebrity has to be transferred to the brand. This is a subtle and creeping process and takes a long time. It is important that celebrity is not associated with other brands that are projecting values and personalities that are very different from, or in conflict with the brand in question. If this happens customers get confused about personalities and values of both the brand and the celebrity and there is serious erosion in the worth of the brand and the celebrity. If the celebrity becomes reckless in signing for brands, he is reduced to the level of slightly more illustrious model. This has to be avoided. A responsible brand would help the celebrity decide the portfolio of brands that he could endorse. His appearance in advertisement of one brand should remind viewers of other brands with the same values and personalities in which the celebrity is featuring. Therefore each time the celebrity appears on the screen, there is some reinforcement of the values and personalities of all the brands he is associated with. In fact a group of similar brands should draw the celebrity in a contract limiting his association with all and sundry brands. A celebrity is a potent marketing tool. He cannot be allowed to go astray and destroy brand value all around him. z Business advertising It is much cheaper to reach a business customer through advertising than through a salesman's visit, a letter, or a phone call. But even a very effective advertisement is not likely to close a sale. Follow-up action is necessary. But advertising pre-sells the product and when a salesman visits a business customer, the latter is positively predisposed towards the salesman's product if he has liked what he has seen in the advertisement. Advertisements also generate inquiries from business customers. Advertising of business products is also important because there are many people in the buyer's organization who influence the buying decision and the salesman cannot know who they all are, and what are their respective interests in the purchase. Advertisement reaches these people, and moreover people who set specification for the product that the company proposes to buy refer to advertisements to know what is being offered in the market. The techniques that work in business-to-business advertising include promising the customer a benefit, news, testimonials, and useful information. The advertiser's promise should be important to the customers. The advertiser has to conduct research to find out the customers' choice criteria. It is always tempting for an advertiser to portray its strengths in its ads but this idea never works unless, by sheer coincidence, the advertiser's strengths and the customer's concerns match. If customers are looking for timeliness of supplies from the seller, the advertisement should promise timeliness of supplies against all odds that the advertiser might face. It is also important to make the promise specific. Instead of mouthing generalities, the ad should promise the money that the buyer can save, the increase in productivity that he can affect, and other very specific performances that the buyer can achieve if he bought the advertised product. The advertiser should always remember that he is talking to specialists who know what they want from the products they propose to buy. Such specialists are often put off by advertiser's attempts to sidetrack from main issues in their ads.

214 Self-Instructional Material Overview of Product Management NOTES Testimonials from experts in reputed companies are useful in influencing business customers. Demonstrations are useful when the advertised product is compared with competitors' products. It is always helpful if a simple demonstration that the customers can perform themselves can be designed. Customers can then validate the claims that the advertiser is making in the ad. Information that appears in the form of news appears credible to business buyers. A company selling to businesses should get new about itself prominently featured in technical journals. Readers scan advertisements in technical journals looking for new solutions to their problems. It has also been found out that an advertisement is more effective than an article in the same journal. Therefore advertising in technical journals can be helpful in generating enquiries. The layout of business ads should be simple. Flamboyant designs, irrelevant photographs and uncharacteristic headlines should be avoided. The ad should look more like a editorial – serious and to the point. Most business products look boring but that is what their customers want to see. It is always advisable to feature the product in the ad, rather than try to titillate the readers in business-to-business advertising. Far more readers read the headlines than the body copy. The headline should catch the readers' fancy. The headline should promise a benefit, or deliver news, or offer a service, or tell an important story, or recognize a problem, or quote a satisfied customer. Fewer readers read the body copy but those who take the trouble to read it are the ones who are genuinely interested in the product. What is said in the body copy will determine the success of the ad. Since more can be written about a business product the advertiser should write a long copy. Long copy attracts more readers than short copy. Captions should always appear under all photographs. More people read the captions than the body copy. The captions should be used to sell and should be treated as mini- advertisements i.e. efforts should be made to make them informative and act as sales pitch. Four-color ads of business products attract more readers than black and white ads. Television should be used as a medium by business-to-business advertisers. The audiences of many sports and news programs are business executives and it makes sense to advertise business products during such programs. Such ads should be longer than the normal ads for consumer products as more information has to be provided to business customers. An advertiser can sacrifice frequency to deliver a thorough and detailed sales pitch. Even inexpensive television commercials for industrial products can be very effective if they come directly to the point and offer something of genuine interest. Advertising can be used to differentiate seemingly commodity industrial products. Such products can differentiate themselves either by low cost or by having a reputation for quality or service. Advertising can spread the news of the company's price advantage or its reputation for quality or service. Inquiries that an advertisement generates come from customers who are genuinely interested in the product and a substantial number of them end up buying the product. Toll-free numbers should always be put in advertisements to make the inquiry easy and fast. Large number of readers of trade journals use these numbers. The body copy should always close with the company's offer, its address and phone number. Check Your Progress 22. What are the various effective advertising formats used on television?

Self-Instructional Material 215 Overview of Product Management NOTES 8.16

PUBLIC RELATIONS Marketers primarily focus on customers and distributors but needs and interests of other groups such as those of employees, shareholders, local community, media, government and pressure groups are also important. Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics. Public relations is more wide ranging than marketing which primarily focuses on markets, distribution channels and customers. By communicating to other groups, public relations creates an environment in which it is easier to conduct marketing. Public relation activities include publicity, corporate advertising, seminars, publications, lobbying and charitable donations.

A company has to understand the importance of stakeholders other than its customers, suppliers and channel partners. A company's very existence as a business entity will be in jeopardy if these stakeholders do not have positive perceptions of the company. For instance, it will not be allowed to set up its factories and offices if it has antagonized the community in which the business is to be set up.

Public and banks would not finance its operation if it lacks credibility.

Aggrieved media and pressure groups can berate the company to the extent that its suppliers and other partners would not want to do business with it. And all these stakeholders shape customers' opinion to some extent. In sum, a company would find it impossible to do business if its major stakeholders are aggrieved with it, even if the company has very good product and marketing program in place.

A company has to be deliberate in managing its relationship with its important stakeholders. It cannot assume that its good practices will ensure good public relations. It has to research the interests and expectations of various stakeholders and serve them. It will be fatal to equate public relations with good corporate communication. For maintaining good relationship with important stakeholders, the company has to first serve their interests and then communicate to them that their interests are being served in particular ways. Focusing exclusively on communications would make the whole exercise a gimmick and the stakeholders will see through the facade. Public relations is as real as any other marketing activity, i.e. it is based on achieving something substantial for the stakeholders.

Public relations is a growth area as marketing has recognized its power and value. Increased advertising cost has led to exploration of more cost effective communication channels. 8.16.1 Functions of Public Relations Public relation accomplishes many objectives: z Facilitates company's overall operations It fosters prestige and reputation which can help companies to sell products, attract and keep good employees, and promote favorable community and government relations. z Aids promotion It can help in promotion of products. Awareness and interest in products and companies can be generated. Desire to buy a product is helped by unobtrusive things that people read and see in the press. People increasingly understand that media has its own interests to serve but still they are more likely to believe the story on a product appearing in the media than the claims made by the company in its ad. z Helps in tackling social and environmental issues It helps in handling social and environmental issues and ensures that they are settled to the mutual benefit of all parties involved. If the company has a good record of fulfilling

216 Self-Instructional Material Overview of Product Management NOTES its societal obligations and safeguarding the environment, its occasional breach will be looked at with benevolence and the organization will be allowed to mend its ways amicably by government bodies and pressure groups. The company will be spared the damages that would have befallen on it if the pressure groups had been stridently opposed to it. The company gets the benefit of doubt in tricky and messy situations and survives to live another day because of its impeccable public conduct in the past. z Ensures that customers are treated well

The company realizes that customers are habitual story tellers. If a

customer

is not treated well by a company he will spread the story far and wide. And if he perceives that the company has gone out of its way to be of help to him, he will be equally profuse in its praise. The need to maintain good public relations ensures that customers are presented with useful information, are treated well and have their complaints dealt with fairly and speedily.

z Helps in attracting and retaining talented employees It

creates and maintains respectability in the eyes of public so that best people are attracted to work for the company. It promotes the sense of identification and satisfaction of employees with their company. Talented employees will stay in an organization only if they are proud of belonging to the organization. An employee will not feel proud of his organizations if stories of the organization's sordid deeds and its shoddy behavior are out in the open. But when the public respects his organization he feels good to be a part of it. Activities such as internal

news letters,

recreation activities and awards for service and achievement can be used.

z Stakeholders give it benefit of doubt It helps in managing misconceptions about a company so that unfounded opinions do not damage its operations. If the company has a good reputation, the public gives benefit of doubt to the company till facts are verified, and the truth is out. This period when the public suspends its judgment about the company till the truth is out has become important these days as the media is likely to keep the company embroiled in some controversy or the other. It is debatable if companies' misdeeds have increased but they are definitely being reported more now, due to the proliferation of media and its constant search for controversies to keep the public interested. In such times, a company's credibility among its stakeholders can be a strong deterrent to media's fetish for stirring controversies. z Develops reputation as a good supplier and customer It helps in building reputation as a good customer for its suppliers and a reliable supplier for its distributors and customers. Customers and suppliers are likely to believe that a company with good reputation with other stakeholders will also keep its commitments with them. With increasing globalization of business getting a favorable international media coverage has become imperative for attracting customers and suppliers from across the world. When distances between a company and its suppliers and customers increase what appears in the media about the company becomes a very important criteria in the decision of the suppliers and customers to consider doing business with the company. Detailed evaluations obviously follows but a company with a bad media coverage gets blocked out right in the beginning of the customers' and suppliers' evaluation process. z Politicians and public officials are favourably inclined It influences the opinions of public officials and politicians so that they feel that a company operates in public interest. With companies looking at establishing designing, Self-Instructional Material 217 Overview of Product Management NOTES manufacturing, and marketing facilities globally, perception of the host government about the company has become very important factor in its success as a global player. A government is likely to expedite the entry of company in its country if it has a good reputation of becoming a good local citizen than if it was known for rabid profiteering. z Responds effectively to negative publicity A company that understands the need to maintain good relationship with its stakeholders will respond quickly, accurately and effectively to negative publicity. It understands that negative publicity can overwhelm a business sooner than bad products and services and will put all its resources in setting the record straight. It will not wait for the negative publicity to die down on its own. It knows that stories in the media will cease to appear after some time but people will have formed negative opinion about it and its interaction with the company will reflect the opinion formed. A savvy company will counter negative publicity vigorously and will not rest till public confidence in the company is restored. 8.16.2 Publicity A major element of public relations is publicity. It is communication about a product or organization by the placing of news about it in the media without paying for time and space directly.

Though a company can manage to get talked about in the media without doing anything which is newsworthy, it will not help its

cause if the readers or the viewers do not find the story about the company stimulating enough to take a note of it and register it in their minds. A big portion of the publicity budget is spend on maintaining relations with media with the hope that media will feature the company more frequently and prominently. This is wasteful. Instead the company should expend its resources

in staging

events, building associations, and doing other things depending upon the type of business the company is in, that the public would be genuinely interested in knowing about. Savvy companies know the triggering points of public and the media attention and conduct themselves in a manner that invites the attention of the public and media. Their publicity endeavor does not end with courting the media. Media, anyway, will carry the stories that its readers and viewers will want to read and view

Tasks of publicity

department z Responding to requests from media which requires availability of well organized information of the company. z Supplying the media with information on events and occurrences relevant to the organization. This requires developed internal communication channels and knowledge of the media. z Stimulating the media to carry the information and viewpoint of the organization. This requires creative development of ideas, developing close relationships with media people and understanding their needs

and motivations. Characteristics of publicity One important task is to supply information to important stakeholders. Information dissemination may be through news releases, news conferences, interviews, feature articles, seminars and conferences.

Publicity has five important characteristics: z Credible message – The message has high credibility than advertising as it appears to the reader to have been written independently by a media person than by an advertiser. Because of the high credibility it is more persuasive than a similar message in an advertisement.

218 Self-Instructional Material

Overview of Product Management NOTES z No media cost – Since space or time in a media is not bought there is no direct media cost; but someone has to write the news release, take part in interviews or organize the news conference. This may be organized internally by a press officer or publicity department or externally by a

public relation agency. z Loss of control of publication – Unlike advertising there is no guarantee that the news item will be published.

The decision is in the hands of the editor and not with the organization.

A key factor is whether the item

is judged to be newsworthy. The item must be distinctive in the sense of having news value. The topic of news item must be of interest to the publication's readers. z Loss of control of content –

There is no way of ensuring that the viewpoint of the company is reflected in the published article. z Loss of control of timing – An ad campaign can be coordinated to achieve maximum impact. The timing of publication of news item cannot be controlled. 8.16.3 New Releases The most popular method of disseminating information to the media is through news release. The following guidelines will be helpful. z The headline: The headline should be factual. Avoid use of flamboyant, flowery language that might irritate the editors. The headline should briefly introduce the story, for instance, A new alliance between IBM and Microsoft. z Opening paragraph: Opening paragraph should be a brief summary of the whole release. If this is the only part of the news release that is published, the writer will have succeeded in getting across essential message. z Organizing the copy: The copy should be organized in such a manner that less important message is placed towards the end of the news release. The lower the paragraph the more the chances of it being cut by an editor. z Copy content: Like the headline, copy should be factual not fanciful. Wherever possible, statements should be backed by facts. A statement claiming fuel economy for a car should be supported by figures. z Length: News release should be as brief as possible. The idea that long releases should be sent to editors so that they can cut out the parts that they do not want is a fallacy. Editors self interest is that their job should be made as easy as possible. The less work they have to do in amending the copy, greater the chance of publication. z Layout: The release should contain short paragraphs with plenty of white space to make it appear easy to read. There should be margins on both sides and copy should be double spaced so that amendments and instructions can be inserted by
the editor. 8.17

SALES PROMOTION Sales promotions are incentives to consumers or trade that are designed to stimulate purchase. A customer has to be made to believe that he is getting more value for the money he is spending than he would have otherwise got if the sales promotion was not in operation. Sales promotion schemes serve to signal the arrival of a time-period in which customers will get the value that they were getting earlier by spending less. In typical consumer promotions, companies reduce the price for a limited time period, or offer more quantity for the same price, or offer extra items or gifts or prizes with the purchase. Discounts and incentives are some of the trade promotions. Companies have to operate sales promotion schemes in a way that customers do not start equating the product with low-priced brands.

Check Your Progress 23. List any four objectives accomplished by public relations.

Self-Instructional Material 219 Overview of Product Management NOTES 8.17.1

Growth of Sales Promotion Vast amount of money is being spent on sales promotion. Global expenditure on sales promotion is equal to media advertising. Sales promotion is growing because of several reasons:

z

Consumers have increased impulse purchasing due their rising income and proliferation of products. The retail response to greater consumer impulse purchasing is to demand more sales promotion from manufacturers to push their brand. Customers' propensity to purchase on impulse receives further impetus when they see an item on sale.

z

Sales promotion used to be employed by fringe players to get some market share from established players because they could not afford to advertise in the mass media. The established companies did not retaliate because they believed that it would devalue their brands and also because they believed that their customers were too
much of gentlemen
to fall prey to such manipulations. But the customers did trade loyalties for lower prices and howsoever much they disliked the idea, the establishes companies had to retaliate by offering their own sales promotion schemes.

Sales promotions are becoming respectable because of their use by market leaders and increasing professionalism of the promotional offers. z The rising cost of advertising, and advertising clutter has made sales promotion an attractive proposition.

Advertising in the mass media has become prohibitively expensive and all the lead players are advertising profusely. Customers cannot tell one ad, and hence one product, from the other. Marketers are realizing that advertising is doing no more than keeping them in this contest, and is not influencing purchase decisions. By withdrawing money from advertising and putting it in sales promotion, marketers hope to get tangible and immediate results in the form of increased sales. z The attraction of boosting sales in a short period of time increases due to intense competition and shortening product life cycles. Most industries face intense competition among equally mighty competitors. There is parity in the offerings of the competitors and customers do not prefer one offering over another. Under such situations sales promotion schemes manage to swing customer purchases. Product life cycles are shortening due to technological breakthroughs coming more frequently and due to customer requirements changing rapidly and drastically. It becomes imperative for companies to realize as much as sales as possible during the brief existence of the product. Sales promotion, used to increase sales in short spurts, is very useful. z In some markets, sales promotion
are

used so often that all competitors are forced to follow suit. If a company launches a sales promotion scheme, and the scheme is not contested by competitors, the company will gain sales at the expense of competitors. Competitors do not allow such a scenario to evolve.
Competitors
launch their own schemes and each competitor eats into the sale of the other depending on the attractiveness of their schemes. At the end of one such sales period, the competitors' sales remain where they were at the beginning of the period. In most markets, sales promotion has become a countervailing measure to thwart attempts of a competitor to garner sales by launching a sales promotion scheme.
z Measuring the sales impact of sales promotion is easier than for advertising since its effect is more direct and usually short-term. The
growing use of electronic point of sales scanner information makes measurement easier. It is easier for sales promotion managers to justify their budget. They are able to show immediate returns on their investments in sales promotion schemes.
220
Self-Instructional Material Overview of Product Management NOTES 8.17.2 Effects of Sales Promotion Sales promotion is used to provide short, sharp impetus to sales. In this sense it is a short- term tactical device. Sales promotion boosts the sales during the promotion period because of the incentive effect. This is followed by a fall in sales to below normal level because some consumers will have stocked up on the product during promotion. The long term sales effect of the sales promotion could be positive, neutral or negative. If the promotion has attracted new buyers who find that they like the brand, repeat purchases from them give rise to a positive long term effect. Alternatively if the promotion has devalued the brand in the eyes of consumers, the effect may be negative. Where the promotion has caused consumers to buy the brand only because of its incentive value with no effect on underlying preferences, the long term effect may be neutral. It is easy to dismiss sales promotion as a marketing gimmick to boost sales of a flagging brand. But the story should be allowed to progress beyond the stage when a consumer has bought a brand because he was influenced by the incentives. He did not buy because he had preference for the brand. But after using the brand he may discover that he likes the brand and eventually develops preference for it. Sales promotion prompts consumption of a brand and if the brand is good it will be liked. Sales promotion can be used an alternative to advertising in mass media for brand building. New brands can be offered as incentives with purchase of established brands. The sales promotion scheme is essentially for the established brand, but the new brand enters consumers' homes and are likely to be consumed and eventually liked. The new brand can also be launched through an independent sales promotion scheme. The idea is to make the consumers try out the product initially. But sales promotion can be used for brand building only when the product is very good. 8.17.3 Major sales Promotion Techniques z Consumer promotion Money off
The brand is offered at a lower price than what it normally sells for. It provides direct value to consumers and is an unambiguous incentive to purchase. Money offs have a proven track record of
stimulating short term sales increase.
But price reductions can be easily matched by competition, and if used frequently can devalue brand image due to its association with low price for long periods of time. If the brand sells at the lower price for a considerable period of time, customers will associate the brand with the lower price. And when the company terminates the sales promotion scheme, the original price will seem high as customers have got used to buying at the low price. Bonus packs The company gives added value by giving consumers extra quantity at no additional cost.
Because
price is not lowered, there is lesser risk of devaluing brand image. With some product groups, like cold drinks, it encourages buyers to consume more. Bonus packs are useful when the product is consumed over a period of time. Customers notice when a pack of detergent powder which normally lasted ten days, lasts few more days. And with such experiences build into them, they will go for the bigger packs because they know that it will be useful. But with products, like chocolates, which are consumed in one go, the consumer might not know the difference between consuming a normal pack and a slightly bigger one. Bonus packs will be useful for such products if a separate pack containing the extra quantity is offered. Even for goods which are consumed over a period of time, a separate pack containing the extra quantity will be more useful than stuffing the extra quantity in the same pack.
Self-Instructional Material 221 Overview of Product Management NOTES Premiums Premiums are any
merchandise offered for free or at low cost as an incentive to
purchase a

brand. There are two major forms: z Free in or On pack gifts: They are given away free with brands. Occasionally the gift is a free sample of any new brand that is related to the brand so that consumers get a chance to use it. Free sample may be a new variety or flavor which benefits by getting trial. The purpose of the sales promotion scheme may actually be to induce consumption of the new brand so that consumers develop a good perception about it. But an unknown brand will not
to
do much to increase the sale of the brand for which the sales promotion is ostensibly held. Some consumers may not even need the particular flavor or the product. Companies can offer common generic products, like some quantity of sugar, as the free item. Such products are unambiguous gifts to the consumers as they are needed in all households. If brands, like a tube of toothpaste, are offered as gifts, there will be the problem of whether the customers like the brand enough to consider it an inducement. z Free in the mail offers: The scheme involves collection of packet tops or labels by customers which are sent in the mail as proof of purchase to claim a free gift or money voucher. Redemption can be very low as consumer collect labels with a view to mailing but are never able collect the requisite number. Most customers will not be patient enough to collect labels for the small financial benefit that the scheme may offer. For such schemes to really catch on the collecting of labels has to be projected as being "cool" or the thing to indulge in. The customers should be exchanging notes as to how many the other has been able to collect. To create such a mass hysteria the company has to promote the scheme in a big way and big rewards should be offered. It will be useful if celebrities are associated in the promotion of the scheme. Such schemes for children can be very successful. A smart scheme which incorporates the latest cool possession of the children's world will be successful even without promotion. Free samples Free samples may be delivered at home or given out in the store. The idea is that having tried the sample a proportion of consumers will begin to buy
it. This is an expensive but effective way of getting consumer trial. But
it may be ineffective if the brand has nothing extra to offer.
Coupons A customer receives an item upon presenting a coupon. Coupons can be delivered to
the house, appear in magazines and newspapers or appear on packs. Home couponing i.e. coupons are delivered at home, is a good method to achieve trial for new brands. Magazine or newspaper couponing is cheaper than home delivery and can be used to stimulate trial but redemption rates are much lower. The purpose of on-pack coupon is to encourage initial and repeat purchase of the same brand or trial of a different brand. A brand carries an on- pack coupon redeemable against the consumer's next purchase usually for the same brand. Redemption rate is normally high. The coupon can offer a higher face value than the equivalent cost of a money-off pack since the effect of the coupon is on both initial and repeat sales. But it is usually less effective in raising initial sales than money-off because there is no immediate saving and its appeal is almost exclusively on existing consumers. Competitions Competitions require participants to exercise a
certain degree of skill and judgment. They may be asked a few simple questions.
Entry is usually dependent upon at least one purchase.
222 Self-Instructional Material Overview of Product Management NOTES Compared to premiums and money-offs, competitions offer a less immediate incentive to buy and requires time and effort on the part of entrants. However, they can attract attention and interest in the brand. Draws Draws make no demands on skills or judgment. The result depends on chance. A store may run an out-of-the-hat draw where customers fill in their names and address on an entry card and on a certain day, draw is made. Media advertising can be used to communicate sales promotions. In fact the company should strive to make a splash with certain types of sales promotion schemes like competitions, collection of labels, and draws, and should have the twin objectives of making the sales promotion scheme successful and promoting the brand when it advertises its schemes. Such forms of sales promotion, like competition, collection of labels, and draws can be advertised as they are not likely to devalue the brand as a scheme of price-offs can. In fact, a company should be circumspect in advertising sales promotion schemes like price-offs and free gifts as such schemes are normally considered as a signal of the fact that the company is not doing well and is desperate to sell. The brand image will be tarnished even among customers who have no intention to make a purchase in the relevant product category. This will bias them against the brand when they have to purchase the product in future. Such schemes should be promoted in the retail stores through banners and through prominent placing on the packaging. The retailers should show keen interest in making the customers aware of the schemes. Such schemes should be introduced when the reason for providing the scheme is unambiguous and strong. For instance, an anniversary celebration may be a good occasion for a retail store to reward its customers. z Trade promotions
Price discounts The trade i.e. retailers and wholesalers may be offered discounts in return for purchasing and keeping the manufacturer's brand.
Concentration of buying into fewer outlets has made the retailers very powerful and this power is translated into

discounts from manufacturers. The discount may be part of joint promotion whereby retailer agrees to devote extra shelf space, buy larger quantities and allow in-store promotions. When a company gives a discount and the retailers return the favor by allowing in-store promotion or by devoting extra shelf space to the brand, it is a fair game. But when a manufacturer gives price discounts to keep the retailer in good humor and to protect its brands from being put off the shelves, it only makes the retailers more brash and greedy. The
appropriate strategy to counter all-powerful retailers is that the manufacturers strengthen their brands and create strong demand for them among consumers.
The most powerful of retailers will keep brands that consumers want to buy and treat manufacturers of such brands with respect. Manufacturers also offer price discounts when retailers buy in large volumes. Such schemes are not helpful to manufacturers. The retailers buy and store for future time periods. The manufacturers have to incur extra cost in manufacturing the extra stock and their facilities remain idle when the retailers do not buy in the next time period as they already have stocks. The net result is that the manufacturer's per unit cost goes up besides realizing less per unit price. The solution is that the manufacturer should provide discounts only for quantities that the retailer manages to sell above the average sale he has been managing in previous time periods. The retailer will have to exert effort to manage extra sales if he wants to avail of the discount. And the retailer only buys the quantities that he can manage to sell. The manufacturer does not face spurt in demand from the retailer.
Self-Instructional Material 223 Overview of Product Management NOTES
Free goods The retailer is offered more merchandise at the same price. The scheme ultimately translates into the manufacturer offering price discounts, with its accompanying pitfalls. Competition The manufacturer offers financial inducements or prizes to the distributor's sales force in return for achieving sales targets for its products. Besides increasing sales for its products, the manufacturer is able to wield some influence over distributor's salespersons. Salespersons may show loyalties towards products of such manufacturers and may push their products. But the manufacturer should ensure that the distributor is a part of the deal. It should not happen that the distributor and his salespersons want to promote products of different manufacturers, with the distributor promoting products of a manufacturer who gives him more margins and the salespersons pushing products of a manufacturer who gives them inducements for selling his products. Allowances The
manufacturer may offer allowance in the form of a sum of money in return for retailers providing promotional facilities in the store. An allowance would be provided to persuade a store to display cards on its shelves indicating that a brand was being sold at a special low price. An advertising allowance would be paid by a manufacturer to a retailer featuring its brands in retailer's advertising. 8.17.4 Sales Promotion Objectives The most basic objective of any sales promotion is to provide
extra value that encourages purchase. When it is targeted at consumers the intention is to stimulate consumers' purchase. When the trade is targeted, the objective is to induce distributors to push the product.
Specific objectives are as follows: z Fast sales boost Short term sales increase is required to reduce inventories, meet budgets prior to end of financial year, moving stocks of old model prior to replacement, increase stockholding by consumers and distributors
in advance of the launch of a competitor's products. These are very legitimate goals.
Promotions that give large immediate benefits such as money-offs or bonus packs
have bigger effects on
sales volume than more distant promotions such as competitions. Sales promotion should not be used as means to patching up more fundamental inadequacies such as inferior product
performance or poor positioning. z
Encourage trial Customers may be induced to buy a new brand because of the extra benefits, like price- offs or free gifts, associated with its buying. If the buyers like the brand the long term effect of the promotions may be positive. They continue to buy the brand. Customers also spread positive word-of-mouth since they are pleasantly surprised to find the product good when they did not expect it. Customers like to talk about products which they accidentally discovered to be good. Strong brands can be created through this method as more customers buy the product on their friends' recommendations. They too find the product good and spread good word about it. Sales promotion schemes like price-offs or free gifts induce customers to buy a new brand. They may also be given out as gifts with established brands as a part of the latter's sales promotion endeavor. Promotions which simply give more products as bonus packs are less successful in promoting new products since consumers place much less value on extra quantity until they have decided they like it.
224
Self-Instructional Material Overview of Product Management NOTES z

Encourage repeat purchases An offer which requires collection of packet tops or labels attempt to raise repeat purchase during promotional period. For products like detergent powders, a pack will be used over a long period. It is difficult to keep the customers motivated enough to keep collecting the labels and present it for redemption. For products which can be consumed in rapid succession i.e. the product is purchased frequently, the scheme can be successful. Children have been found to become obsessed with collecting labels especially if the reward is some cool possession, like Pokeman cards. z Stimulate purchase of larger stocks Promotions that are specifically linked to larger pack size may persuade consumers to switch from less economical smaller packs. But when customers buy large pack sizes, they do not necessarily consume more. The large pack size lasts for another time period and customers do not buy the product in the next time period. There is sharp decrease in demand and the manufacturer faces the problem of idle capacity. This problem is in addition to the problem that the company faced in meeting the big surge in demand when the scheme was on. Manufacturers should always remember that per unit cost of production is minimum when the production is carried out at a uniform rate throughout the year. Per unit cost of production goes up when the production rate is varied. z Gain distribution and shelf space

Trade promotions are designed to gain distribution and shelf space. Discounts, free gifts, joint promotions are used to encourage distributors to stock brands. Also consumer promotions that provide sizeable extra value may also persuade distributors to stock or give extra shelf space. 8.17.5 Evaluating Sales P romotion It is easy to launch a sales promotion scheme and it is also relatively easy to match sales promotion schemes of competitors. After all, sales promotions is just shelling out concessions to customers. Sales promotion is often employed due to competitive necessity rather than because it serves some useful purpose. Champions of sales promotion find it easy to convince their superiors about the attractiveness of sales promotion schemes because they do manage to increase sale in the short term, though the real cost of achieving that short spurt in sale is never calculated. A company needs to exercise caution in using sales promotion, and should insist that it be evaluated rigorously before being implemented and also after it has elapsed. z Pre testing research It is used to select from a number of alternative promotional concepts, the most effective one in achieving the company's objectives. The concept may be tried out in limited stores and the scheme is introduced in the bigger market if it finds acceptance with the limited audience. Following methods are employed in pre-testing research „ Group discussion is used with target customers to test ideas and concepts. They provide insights into the kind of promotions that might be valued by them. They assess several promotional ideas so that some can be tested further and others discounted. Group discussion should be used as a preliminary rather than a conclusive tool. „ Hall tests involve bringing a sample of target consumers to a room so that alternative promotional ideas can be tested. The promotions are ranked on the basis of the value consumers put on the incentives. Around 100 consumers are invited and not more than 7-8 alternatives are tested, as consumers will not be able to discriminate among a larger number of ideas. The promotional alternatives should of similar cost to the company.

Self-Instructional Material 225 Overview of Product Management NOTES „ Experimentation closes the gap between what people say they value and what they actually value by measurement of actual behavior in marketplace. Two panel of stores are used to compare two promotional alternatives or one promotion against no promotion. Two stores should be comparable so that difference in sales is due to the promotions rather than difference in stores themselves. Experimentation may just be used as final check on promotional response before launching the promotion on a wider scale. Group discussion and hall tests are used prior to an experiment to narrow the promotional alternatives to a manageable few. z Post testing research Post-testing research is carried out to assess whether promotional objectives have been achieved or not. Sales are checked both during and after promotion so that post promotional sales dips can be known. A fall in sales can precede a promotion. If consumers feel that promotion is imminent they hold back purchases until it takes place. Ex-factory sales figures are unreliable and offtake at retail level should be found out, as some stock can lie unsold in the stores. Consumer panel data can reveal the type of people who responded to the sales promotion. If the company had targeted the scheme at the type of customers who actually responded, the company can continue with the scheme in future too. But if the scheme was meant to be attractive to a different set of customers than the set which actually took benefit of it, the company will have to redesign its scheme. For instance, if only the loyal customers bought the larger pack, the scheme did not help the company much. The loyal customers would have any way bought the product the next time period too. They just advanced their purchase and took advantage of the concessions. But the sales could have been targeted at customers of other brands. A retail audit data is used to establish whether promotion was associated with retail outlets increasing their stock levels, and a rise in the number of outlets handling the brand, besides measuring sales effect. An attempt should also be made to assess long term impact of sales promotion in terms of increased market share over a longer period of time. This is difficult to assess due to other marketing activities being carried out simultaneously. But even anecdotal data in the form of some customers having liked the brand when they bought in a sales promotion scheme should be actively sought. 8.18 SALES FORCE MARKETING

Managing a sales force is an intricate task because most salespeople work away from the direct supervision of their managers. z Setting objectives
In order to achieve aggregate sales objectives, individual sales people need to have their own sales targets, but increasingly profit targets are being used, reflecting the need to guard against sales being bought cheaply by excessive discounting. To gain commitment to targets, individual salespersons should be consulted. Sales managers can
also set input objectives such as time spent developing new accounts or time spent introducing new products.
They
may also specify number of calls expected per day and precise customers who should be called upon. z Recruitment and selection
High caliber salespeople should be recruited. If company's most successful sales people were put in a territory by replacing the average ones, 20 p.c. increase in sales should be
226
Self-Instructional Material Overview of Product Management NOTES
expected in two years. Work practices of the company and independence are more important than earnings as the key attraction to a selling career. Sales managers need to discover the reasons why people want to become
sales people
in their industry so that they can develop recruitment strategies that reflect those desires. Recruitment process follows five stages: Preparation of job description and personnel specifications Top ten qualities sought in sales people by sales managers of large companies are communication skills, personality, determination, intelligence, motivation/
self
motivation, product knowledge, educational background, confidence, appearance, resilience and tenacity. Research has reduced the above ten qualities to two – empathy and ego drive. Empathy is the ability to feel problems and needs of the customer in the same way and with the same intensity that the customer does. Ego drive is the need to make a sale in a personal way i.e. the salesperson will feel miserable if he is not able to make the sell, and not merely for money. Job description will include job title, duties and responsibilities, technical requirements, geographic area to be covered and degree of autonomy given to sales people.
Identification of source of requirement and method of communication Sources of hiring sales people include company personnel, recruitment agencies, educational institutes, competitors, unemployed people, other industries. Advertising is the most common method of communication. Size of advertising correlates with impact. The ad should contain a headline which attracts attention of possible applicants. Design of application form It allows sales managers to check if the applicant is qualified in light of personnel specification. It provides a common basis for drawing up a short list of candidates, provides a foundation for interview and is a reference point for the post interview decision making stage. Interview Screening and selection interview is employed. Overall objective is to form a clear and valid impression of strengths and weaknesses of each candidate.
Following requirements may be used: Physical requirement (speech, appearance), attainments (educational attainment, previous sales success), personal qualities (drive, ability to communicate), disposition (maturity, sense of responsibility), interests (any interests that may have positive impact on building customer relationship).
The interview should start with easy to answer questions that allow the candidate to talk freely and relax. Interviewer should be courteous and appear interested in what the candidate says. Open questions like 'can you tell about your experiences selling automobiles', encourage interviewers to express themselves. Probes can be used to prompt further discussions. At the end of the interview the candidate should be told when decision will be made and how it will be communicated. Supplementary selection aids Psychological tests should be used only when it can be validated that test scores correlate with sales success. A test that
may be useful in selecting car salesperson may be useless when filing vacancy for aero engine sales job. Role playing is also used to gauge
potential of applicants. Role playing is useful in estimating potential in making short term sales
but it is unlikely to provide a reliable guide when emphasis is on building long term relationship with customer. z Training Training should include product knowledge and development of selling skills.
Success at selling comes when the skills are performed
automatically without consciously thinking about them. A training program should include knowledge about the company, products, competitors and their products, selling procedures and techniques, work organization
Self-Instructional Material 227 Overview of Product Management NOTES including
report preparation and relationship management. Training in management of long term customer relationship as well as context specific selling skills should be given. This should be followed by in-the-field training where
skills can be practiced face to face with customers.

Best sales people do not always make best sales managers as other skills like teaching and motivating others are needed. z Motivation and compensation
Motivation is based on understanding of salesperson as individuals, their personalities and value systems. Managers should
provide the enabling conditions in which salespersons motivate themselves. Tasks of sales managers in motivating salespeople
z Get to know what each salesperson values and what each one is striving for. z Be willing to increase responsibility of salespersons. z Realize that training can improve
motivations as well as capabilities by strengthening link between effort and performance. z Provide targets that are believed to be attainable yet provide a challenge to salespersons. z Link rewards to performance that the salesperson wants to improve z Recognize that rewards can be financial and non-financial, and both can motivate. z Convince salesperson that they will sell more by working harder or by being trained to work smarter i.e. more efficient call planning, developing selling skills. z Convince sales people that rewards for better performance are worth the extra effort. Managers should give rewards that are valued and attempt to sell the worth of those rewards to sales people. Types of salespersons z
Some salespeople have decided the type of life they want. They try to maintain their standard of living by earning a predetermined amount of money. z Some of them are satisfiers. They perform at a level just sufficient to keep their jobs. z
Some salespersons make trade-offs. They allocate their time based upon personally determined ratio between work and leisure that is not influenced by the prospect of higher earnings. z Some of them are goal oriented. They prefer recognition as achievers by peers and superiors, and tend to be sales-quota oriented, with money mainly serving as recognition of achievement. z Some of them are strictly money oriented. Their aim to maximize their earning. Family relationships, leisure may be sacrificed in pursuit of money. Managers must categorize their sales people before deciding their motivational and compensation plan. The first three will not be motivated by commission opportunities but the last two will be. Three types of compensations plans
z Fixed salary: Because payment is not linked to sales, salespeople are willing to carry out such tasks as technical backup, completing information feedback reports and prospecting. It provides security but opportunity to increase income by increasing sales is lost. There may be perceived injustice if higher performance sales people are not paid more than low achieving ones. z Commission only: This provides a strong incentive to sell, too strong at times leading to overbearing sales people desperate to close the sales. There is unwillingness to take time off form direct selling tasks to attend training courses or fill in reports and there is high turnover.
228 Self-Instructional Material Overview of Product Management NOTES z Salary plus commission: Hybrid system provides some incentive to sell with an element of security. Salary makes about 70 P.C. of the income. The system is attractive to ambitious sales people who wish to combine a base level of income with the opportunity to earn more by greater effort and ability. This is most commonly used method of payment. Bonuses are usually paid on achievement of some task such as achieving a sales target or opening a certain number of new accounts. z Evaluation of sales people Evaluation provides information to check if targets are being achieved and provide information to guide training and motivation. By identifying strengths and weaknesses of individual sales people, training can be focused on areas in need of development and incentives can be aimed at weak spots such as poor prospecting performance. Quantitative measures of performance z Output criteria: Sales revenue,
profits generated, sales per active account, number of new accounts opened. z Input criteria: Number of calls, calls per active account, calls on new account, number of

prospects visited. Quantitative measures are compared against target figures to identify strengths and weaknesses. Many of the measures are diagnostic, pointing to reasons why a target is not being reached. A poor call rate may be cause of low sales achievement. Some results will need investigation. Qualitative measures of performance z Sales skills: Questioning, making presentation z Customer relationships: How much confidence do customers have in the salesperson? z Product knowledge z Self management: How well are calls prepared, routes organized? z Cooperation and attitudes: To what extent does a salesperson show initiative, follows instructions? The use of quantitative and qualitative measures should be inter-related. A poor sales per call ratio will mean a close qualitative assessment of selling skills, customer relationship and product knowledge. A form of qualitative assessment is likelihood of winning or losing an order. A sales manager should be able to assess the chances of an order being successfully concluded early to rectify the situation if things seem to be going astray. Asking sales people directly will rarely result in accurate answers. Asking a series of questions of who, when, where, why and how will help the sales manager to probe deeper into situations. Specific detailed answers like, "the customer will buy at year end", are more convincing than "the customer is liking our product". The losing answers are thin and unconvincing. Sales people may be convinced that the sale will be achieved but answers show that it is unlikely. The winning answers are more assured and credible. With the losing answers, the sales manager will need to act. The response will also depend on how important the sale and the salesperson are to the organization. If they both have high potential, the sales manager should work with
the salesperson to conclude the sale. He should be counseled, and the sales manager should take him under his wings for some time till he regroups himself to be on the beat again.

Evaluation and control of total sales operation Companies need to be in control of their sales operation. Sometimes they may have to take drastic actions to ensure that sales organizations is achieving its targets. One company which suspected that its sales people had become complacent moved every salesperson to a different territory, and sales increased. 8.18.1
Problems of Sales Management z Geographic separation: There is geographic separation between sales managers and their field sales force. This creates problems of motivation, communication and control. z Repeated rejections: Salesperson may suffer repeated rejections when trying to close sales. This may cause attrition of the salesperson's enthusiasm, attitude and skills. Sales managers need to provide support and renew motivation in these adverse circumstances. z Salesperson's personality and realities of the job: Most sales people are outgoing and gregarious. These are desirable characteristics for people who are selling to customers. But the reality of the job is that only 30 p.c. of a salesperson's time is spent face to face with customers, with traveling and administration work contributing the rest. This means that more than half of the salesperson's time is spent by themselves, which can cause frustration among people who like the company of others. z Oversimplification of task: Sales managers take the attitude that they are interested only in results. They believe that it is their job to reward those who meet sales targets and punish those who fail. Such an attitude ignores the contribution that sales force can make to successful achievement of the company's objectives. 8.19 SUMMARY In this unit, you learnt that: z The product is the main offering of a company. Product management include decisions related to the basic attributes of the offering, augmented features, packaging, labelling and branding. z Product innovation is the one of the main ways of differentiating a company's offering. Innovations may be major, such as a breakthrough product, or minor, such as improved products. Innovations can be done in the basic product offering or in packaging. z The main purpose of maintaining a portfolio is to diversify risk and maximize returns. The company must decide on the suitable allocation of resources to each of its products in its portfolio. This is often judged on the basis of the stage of the product life cycle, the performance of the company's brand in the category, the competitive and growth scenario of the category. z The purpose of branding is to create a distinct offering that is superior to those offered by competitors. The product that is offered must be meant for a well-defined set of customers, and must provide them with a compelling reason to buy. z A great brand neither relaxes upon having built a good customer base, nor does it dilute its stand by attracting other customers who do not fit in with the existing character of the brand. Instead, it constantly reminds and reinforces the values that made it a great brand. z

Initial prices for any product must be established after analyzing the cost structure of the company, gauging the costs of the competitors, and understanding the value propositions desired by the customer in the intended market. These initial prices undergo changes with changes in any

of the aforementioned factors. Check Your Progress 24. Give three examples each of the following: (i) Consumer promotions, (ii) Trade promotions. 25. What are the various problems faced in sales management?

100%	MATCHING BLOCK 146/151	W

Most companies do not have a formal organizational structure, like a department, in place whose prime responsibility is to manage pricing policies in the company. Prices can be set by a lower level functionary in an accounts department as well as by the chief executive.

z

91%	MATCHING BLOCK 147/151	W

Every marketing activity shapes the pricing strategy of a firm. For instance, technological advancement of a product or packaging, promotional expenditure, distribution coverage etc. impact the final prices at which products are sold to customers.

z Distribution is about placing the product in the hands of the customer. While most of the marketing tasks like new product development and advertising can be done by the company itself, distribution can be too onerous a task to be undertaken by the company alone. z Independent channel intermediaries have to be drafted to transfer the product and information about it to the customer and relay the money paid by the customer back to the company. The interests of the manufacturer and the intermediaries have to be reconciled as both are independent businesses with their own agendas. z It is important to remember that technologies impact the choice of channels used for transferring product, information and money. Earlier the same channel was used to transfer all three. Increasingly separate channels are transferring product, information, and money more efficiently. z Retailing involves selling the product offering to the ultimate customer. Therefore, retailers are always in the best position to understand the customer. z Various types of retail formats are possible on the basis of product assortment, size of the retail store and the pricing strategies followed by the retailer. z The retail store can be differentiated on the basis of distinct processes followed by the store, that result in providing unique shopping experiences for the customer, or in terms of product assortment, or both. z The location of the store is most importantly determined by the target audience that would visit them, and the frequency of these visits. Depending on the location of the store, other facilities such as parking, food and entertainment may need to be provided. z Tasks like holding inventory, transporting products etc. have to be carried out for an efficient distribution system, but who undertakes these tasks is not important. z The objective should be to increase the efficiency and profit of the whole distribution system and not of any individual player. If the most powerful player of the distribution will be allowed to serve his own interests, the efficiency and profitability of the distribution system will suffer. z Advertising is meant to make consumers buy products. It is a medium of information and persuasion. The effectiveness of an advertisement can be best judged by its ability to enhance sales. z

Public relations is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics.

z

Sales promotions are incentives to consumers or trade that are designed to stimulate purchase.

A customer has to be made to believe that he is getting more value for the money he is spending than he would have otherwise got if the sales promotion was not in operation.

z Managing a sales force is an intricate and crucial task.

A large proportion of employees of companies are engaged in sales activities. Efficiency and effectiveness of a sales force very strong determinants of competitiveness of a company.

Self-Instructional Material 231 Overview of Product Management NOTES 8.20 KEY TERMS z Convenience goods: They are inexpensive products, such as soft drinks, chocolates, deodorants, that require little shopping effort and planning. z Price differentiation: It is the process of estimating the price sensitivity of the target market and offering relevant values on the basis of such estimation. z Branding: It is the process by which companies distinguish their product offerings from competition. z Profit maximization: It is the process of

setting prices so that total revenue is as large as possible relating to total

cost. z Sponsorship: It is a business relationship between a provider of funds, resources or services and an individual, event or organization which offers in return some rights and associations that may be used for commercial advantage. z Public relations: It

is the management of relationships and communication to establish goodwill and mutual understanding between an organization and its publics. 8.21

ANSWERS TO 'CHECK YOUR PROGRESS'S 1. The different types of consumer products are as follows: • Convenience products • Shopping products • Unsought products • Technology products • Commodity products • Customized products 2. A method of customization is modular design. In modular design, many varieties of each component of the product are made. All these varieties are mutually compatible with each other and customers can choose any variety of each component and get the product assembled. 3. A product mix is the total set of brands marketed by the company. The width of product mix is
the number of product
lines that a company
offers. 4.
When a company adds a similar item to an existing product line with the same brand name,
it is called line extension. A company resorts to
line extension to appeal to more market segments by offering a wide range of
options of flavours, colours, size, etc. for a particular product. 5.
Positioning is the perception or the image that customers have of the company and its products. It is the customers' beliefs about the company's product being of, say, high quality, or low price, or durable, etc. 6. Ries and Trout suggest that marketers are involved in a battle for minds of target customers. Successful positioning is creating favourable connotations in the minds of customers. Mercedes is associated with sophistication, prestige, world-class German engineering and class round the world. 7. Promotional differentiation arises from unique, valued images created by advertising or superior services provided by salespeople. People in different target markets are likely to react differently to certain stimuli like emotions, images, storylines, celebrities etc.
232 Self-Instructional Material Overview of Product Management NOTES 8. Price differentiation involves estimating the price sensitivity of the target market, and offering relevant values on the basis of such estimation. A target market can be totally price insensitive and desire value of the highest order. These values can be exclusivity, sheer luxury, symbol of status or royalty. 9. The stages of
new product development process are as follows: • New product strategy • Idea generation • Idea screening • Concept testing • Business analysis • Product development •
Marketing testing • Commercialization and diffusion of innovation 10. The different stages of customers in the product adoption process are as follows: • Innovators • Early adopters • Early and late majorities • Laggards 11. The different stages of the product life cycle are as follows: • Introduction • Growth • Maturity • Decline 12.

87%	MATCHING BLOCK 148/151	W

Product life cycle (PLC) emphasizes the need for product planning. There is need to replace old products with new ones. There is a need to analyse the balance of products. A company with all its products in the mature stage may be generating profit today but as the products enter decline stage, profits may fall. A nicely balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage, and there should be reasonable prospect of new product launches in

the near future. 13. Branding is the process by which companies distinguish their product offerings from competition in order to create a unique position in the minds of customers. 14. Brand equity is the value and power of the brand that determines its worth. 15. The factors that affect pricing decisions are as follows: • Price-quality relationship • Competition • Negotiation of margins •" Charging low prices • Political factors
Self-Instructional Material 233 Overview of Product Management NOTES 16. The two factors that affect competitor-oriented pricing are as follows: • Going rate pricing • Competitive bidding 17.

100%	MATCHING BLOCK 149/151	W

A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. 18.

100%	MATCHING BLOCK 150/151	W

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts, for to do so

100%	MATCHING BLOCK 151/151	W

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 19.

Channel design decisions involve (1) the selection of most effective distribution channel, (2) the appropriate level of distribution intensity and (3) degree of channel integration. 20. To reduce conflict arising from multiple distribution channels, manufacturers can partition markets on mutually acceptable basis such as customer size or type. This is known as market portioning. 21. Sponsorship is a business relationship between a provider of funds, resources or services and an individual, event or organization which offers in return some rights and associations that may be used for commercial advantage. It allows a business to demonstrate its affiliation to the individual, event, or the organization that it has chosen to associate with. 22. The various effective advertising formats used on television are as follows: • Humorous • Slice of life • Testimonial • Product demonstration • Comparison studies • Solution provider • Rational reason • Cartoons • Musicals 23. Public relations accomplishes the following objectives: • Facilitates company's overall operations • Aids promotion • Helps in tackling social and environmental issues • Ensures that customers are treated well 24. Consumer promotions: Free samples, coupons and bonus packs. Trade promotions: Price discounts, free goods and competitions. 25. The various problems faced in sales management are as follows: • Geographic segmentation • Repeated rejections
234 Self-Instructional Material Overview of Product Management NOTES • Salesman's personality and realities of the job • Oversimplification of task 8.22 QUESTIONS AND EXERCISES Short-Answer Questions 1. What is the usefulness of the BCG matrix? 2. What is the difference between product and market development in the Ansoff matrix? 3. What are the advantages and disadvantages of experimentation in assessing customers' willingness to pay? 4. What is the difference between channel decisions and physical distribution management? 5. Why is it wrong to measure the impact of sales promotion only during the promotional period? Long-Answer Questions 1. The product life cycle is more likely to mislead marketing managers than provide useful insights. Discuss. 2. Examine the product life cycle of personal computers in the Indian market, and trace various marketing strategies followed by firms in different stages? 3. Accountants are always interested in profit margins, sales managers want low prices to help push sales, and marketing mangers are interested in high prices to establish premium positions in the marketplace. To what extent do you agree with this statement in relation to the setting of prices? 4. The only reason that companies set low prices is that their products are undifferentiated. Discuss. 5. What is meant by partnership approach in managing distribution? What can manufacturers do to help build partnerships? 6. Recall three sales promotions in your supermarket. What type of promotions are they? What are their likely objectives? 7. The major reason for event sponsorship is to indulge the senior management in their favourite pastime. Discuss. 8.23 FURTHER READING Hemmermesh, R. G., M. J. Anderson, J. E. Harris (1978), 'Strategies for Low Market Share Businesses,' Harvard Business Review, 50 (3), 95–102. Kotler and Singh (1981), op. cit. Kotler, P., R.
Singh (1981), 'Marketing Warfare in the 1980s,' Journal of Business Strategy, Winter, 30–41.
Porter, M. E. (1985), op. cit.
Self-Instructional Material 235 Notes
Notes Self-Instructional 236 Material

Hit and source - focused comparison, Side by Side

Submitted text As student entered the text in the submitted document.

Matching text As the text appears in the source.

1/151	SUBMITTED TEXT	20 WORDS	71% MATCHING TEXT	20 WORDS
Price Changes 8.12.2 Tactics of Price Change 8.12.3 Estimating Competitor Reaction 8.12.4 Reacting to Competitors' Price Changes 8.12.5 Tactics of Reaction 8.12.6 Price Wars 8.12.7			Price Cut 14.5.4 Tactics of price change 14.5.5 Estimating Competition Reaction 14.6 Reaction and Responding to Competitors price changes 14.7 Tactics of Reaction 14.8 Price Wars 14.8.1	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

2/151	SUBMITTED TEXT	20 WORDS	100%	MATCHING TEXT	20 WORDS

The aim of marketing is to understand the customer so well that the product or service fits him and sells itself.

SA Marketing Management_compressed.pdf (D127612808)

3/151	SUBMITTED TEXT	26 WORDS	100%	MATCHING TEXT	26 WORDS

marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.'

Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

4/151	SUBMITTED TEXT	122 WORDS	98%	MATCHING TEXT	122 WORDS

Marketing Mix Marketing mix is a particular combination of the product, its price, the methods to promote it, and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, price, place and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving

MARKETING MIX Marketing Mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer. Based upon its understanding of customers, a company develops its marketing mix of product, place, price and promotion. The elements of the marketing mix are intricately and sensitively related to each other. The marketing mix is good or bad as a whole. All the elements have to reinforce each other to enhance the experience of the customer. When a change is proposed to be made in one of the elements, it has to be checked if the changed element still fits with and reinforces other elements, or has it started contradicting other elements, making the marketing mix less effective in serving

W http://www.distanceeducationju.in/pdf/mcom2.pdf

5/151	SUBMITTED TEXT	20 WORDS	95%	MATCHING TEXT	20 WORDS

The aim of marketing is to understand the customer so well that the product or service fits him and sells itself.

The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

6/151	SUBMITTED TEXT	13 WORDS	100%	MATCHING TEXT	13 WORDS

involves deciding what goods or services should be offered to customers. The product

involves deciding what goods or services should be offered to customers. The product

W http://www.distanceeducationju.in/pdf/mcom2.pdf

7/151	SUBMITTED TEXT 41 WORDS	100% MATCHING TEXT 41 WORDS
	The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product. 14	The product provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. All other elements should be reinforcing the value proposition of the product.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

8/151	SUBMITTED TEXT 67 WORDS	83% MATCHING TEXT 67 WORDS
	An important element of product strategy is new product development. As technologies and tastes change, products become out-of-date and inferior to competition. So companies must replace them with new designs and features that customers value. The challenging task is to include the latest available technologies and solutions to the latest needs of the customer in a company's product. Product decisions involve choices regarding brand names, warranties, packaging and services which should accompany	An important element of product strategy is new product development. As technologies and tastes change, Products become out-of-date and inferior to competition. So the companies must be capable of replacing them with new designs and features that customer value. The most challenging task is to include the latest available technologies and solutions to the latest needs of the customer in a company's product. The decisions product can be related to brand names, warranties, packaging and services which should accompany

W http://www.distanceeducationju.in/pdf/mcom2.pdf

9/151	SUBMITTED TEXT 20 WORDS	95% MATCHING TEXT 20 WORDS
	to be very careful about pricing objectives, methods to arrive at a price and the factors which influence setting of	to be very clear and careful about pricing objectives, methods to arrive at a price and the factors which influence setting of

W http://www.distanceeducationju.in/pdf/mcom2.pdf

10/151	SUBMITTED TEXT 20 WORDS	92% MATCHING TEXT 20 WORDS
	price. The company must also take into account the necessity to give discounts and allowances in some transactions. These requirements can	price. The company must also take into consideration the necessity to give discounts and allowances in some transactions. These requirements can

W http://www.distanceeducationju.in/pdf/mcom2.pdf

11/151	SUBMITTED TEXT	69 WORDS	59% MATCHING TEXT	69 WORDS

In comparison to other elements of the marketing mix, price can be changed easily. But an ill-considered change in price, can change customer perceptions about the value of the marketing mix. In the absence of any objective knowledge about the quality of the product, the customer builds a strong association between price and quality. If the price of a product is reduced, customers may start regarding it as an inferior quality product.

In comparison to other elements of the marketing mix, price can be changed easily. But any mistake in pricing can certainly change the customer perspective about the value of marketing mix. In the absence of any objective knowledge about the quality of product, the customer generally builds a strong association between price and quality. In such a scenario if the price is reduced all of sudden, customers may start considering it as an inferior quality product,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

12/151	SUBMITTED TEXT	14 WORDS	100% MATCHING TEXT	14 WORDS

the price too high for the value that they are getting from the product.

the price too high for the value that they are getting from the product. 4.5.3

W http://www.distanceeducationju.in/pdf/mcom2.pdf

13/151	SUBMITTED TEXT	34 WORDS	100% MATCHING TEXT	34 WORDS

By these means the target audience is made aware of the existence of the product and the benefits that it confers to customers. The type of promotional tool used has to gel with other elements of

By these means the target audience is made aware of the existence of the product and the benefits that it confers to customers. The type of promotional tool used has to gel with other elements of

W http://www.distanceeducationju.in/pdf/mcom2.pdf

14/151	SUBMITTED TEXT	62 WORDS	87% MATCHING TEXT	62 WORDS

marketing mix. An expensive product, like machinery, with limited number of customers should be promoted through personal contacts between buyers and salespersons. Advertising in the mass media would be wasteful as the number of customers are far too small, and it would be ineffective as the customer will not make a decision to buy such an expensive product based on little information provided in an advertisement.

marketing mix. An expensive product with limited number of customers should be promoted through personal contacts between buyers and sales persons. Advertising in the mass media would be wasteful as the numbers of customers are far too small and it would be ineffective as the customer will not make a decision to buy an expensive product based on little information provided in an advertisement.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

15/151 SUBMITTED TEXT 83 WORDS	96% MATCHING TEXT 83 WORDS
Place Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers, and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely costly and cumbersome if the manufacturer had to set all the infrastructure needed to manage the transfer of goods to the	Place Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It will be extremely expensive and cumbersome if the manufacture had to set up the entire infrastructure needed to manage the transfer of goods to the

W http://www.distanceeducationju.in/pdf/mcom2.pdf

16/151 SUBMITTED TEXT 16 WORDS	84% MATCHING TEXT 16 WORDS
three distinct functions. They transfer products from the manufacturer to the customers, they pass information from	Three distinct functions are performed by distribution They transfer products from the manufacturer to the customers, they pass information from

W http://www.distanceeducationju.in/pdf/mcom2.pdf

17/151 SUBMITTED TEXT 16 WORDS	68% MATCHING TEXT 16 WORDS
from the manufacturer to the customers, and they retrieve payment from the customers to the manufacturer.	from the manufacturer to the customers, they pass information from manufacturer to customers and they retrieve payments from the customers to the manufacturer.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

18/151 SUBMITTED TEXT 72 WORDS	91% MATCHING TEXT 72 WORDS
Marketing mix oversimplifies the realities of the market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services, people are often the service itself. The process or how the service is delivered to the customer is a key part of the service. The physical evidence, like the check-list in car service or a surgeon's uniform, give signals to customers about the quality and reliability of the service.	Marketing Mix oversimplifies the realities of market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services people are often the service itself. The process or the service is delivered to the customer is a key part of the service. The physical evidence, like the checklist in the car service or a surgeon's uniform, give signals to customers about the quality and reliability of the service.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

19/151	SUBMITTED TEXT 26 WORDS	100% MATCHING TEXT 26 WORDS
	marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' •	Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

20/151	SUBMITTED TEXT 25 WORDS	72% MATCHING TEXT 25 WORDS
	Marketing mix is a particular combination of a product, its price, methods to promote and the ways to make the product available to the customer.	Marketing Mix is a particular combination of the product, its price, the methods to promote it and the ways to make the product available to the customer.
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

21/151	SUBMITTED TEXT 15 WORDS	90% MATCHING TEXT 15 WORDS
	The elements of a marketing mix are intricately and sensitively related to each other. • The	The elements of the marketing mix are intricately and sensitively related to each other. The
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

22/151	SUBMITTED TEXT 27 WORDS	64% MATCHING TEXT 27 WORDS
	Marketing NOTES • Marketing mix: It is a particular combination of a product, its price, methods to promote and the ways to make the product available to the customer. •	MARKETING MIX Marketing Mix is a particular combination of product, its price, the methods to promote it and the ways to make the product available to the customer.
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

23/151	SUBMITTED TEXT 25 WORDS	100% MATCHING TEXT 25 WORDS
	marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' •	Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

24/151	SUBMITTED TEXT 26 WORDS	100% MATCHING TEXT 26 WORDS
	marketing is 'the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.' 2.	Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
W	http://www.distanceeducationju.in/pdf/mcom2.pdf	

25/151	SUBMITTED TEXT	11 WORDS	100% MATCHING TEXT	11 WORDS

involves deciding what goods or services should be offered to customers,

involves deciding what goods or services should be offered to customers.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

26/151	SUBMITTED TEXT	28 WORDS	100% MATCHING TEXT	28 WORDS

provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce. 9.

provides the primary value to the customer. The customer got interested in the company primarily because of the product or service it was producing or proposed to produce.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

27/151	SUBMITTED TEXT	34 WORDS	100% MATCHING TEXT	34 WORDS

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place. 24

Place involves decisions concerning distribution channels to be used, the location of outlets, methods of transportation and inventory levels to be held. Product should be available in right quantity, at right time and place.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

28/151	SUBMITTED TEXT	29 WORDS	100% MATCHING TEXT	29 WORDS

Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. 11. It

Distribution channels consist of independent intermediaries such as retailers, wholesalers and distributors through which goods pass on their way to customers. These intermediaries provide cost-effective access to the marketplace. It

W http://www.distanceeducationju.in/pdf/mcom2.pdf

29/151	SUBMITTED TEXT	27 WORDS	94% MATCHING TEXT	27 WORDS

market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence, because in services, people are often the service itself. 12. The

market. In services, 4Ps do not take into account people who provide the service, processes and physical evidence. In services people are often the service itself. The

W http://www.distanceeducationju.in/pdf/mcom2.pdf

30/151	SUBMITTED TEXT	68 WORDS	91% MATCHING TEXT	68 WORDS

oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its businesses. The environment consists of various forces that affect the company's ability to deliver products and services to its customers. The micro-environment of the company consists of various forces in its immediate environment that affects its ability to operate effectively in its chosen markets. This includes

oriented company looks outside its premises to take advantage of the emerging opportunities and to monitor and minimize the potential threats faced by it in its business. The environments consist of various forces that affect the company's ability to deliver products and services to its customers. The micro environment of the company comprise of various forces in its immediate environment that effect its ability to operate effectively in its chosen markets. This includes

W http://www.distanceeducationju.in/pdf/mcom2.pdf

31/151	SUBMITTED TEXT	48 WORDS	87% MATCHING TEXT	48 WORDS

company's suppliers, distributors, customers and competitors. The macro-environment consists of broader forces that not only affect the company and the industry, but also other actors in the microenvironment. These shape the characteristics of the opportunities and threats facing a company and are factors that are largely uncontrollable by the company. 28

company's suppliers, distributors, customers, and competitors. The macro environment consists of broader forces that not only affect the company and the industry, but also other actors in the micro environment. These shape the characteristics of the opportunities and threats facing a company. These factors are largely uncontrollable by the company.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

32/151	SUBMITTED TEXT	87 WORDS	80% MATCHING TEXT	87 WORDS

ECONOMIC FORCES The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. 2.2.1 Income One of the most important factors in the economic environment is the income of customers. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money.

Economic Forces: The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. • Income: Income of the customer is the most important factor in the economic environment. This indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customer, but also he has to decipher the products on which the customer would be willing to spend his money. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

33/151	SUBMITTED TEXT	13 WORDS	95% MATCHING TEXT	13 WORDS

Inflation is an important economic indicator of an economy. Inflation refers to

Inflation: It is an important economic indicator of an economy. Inflation refers to

W http://www.distanceeducationju.in/pdf/mcom2.pdf

34/151	SUBMITTED TEXT	12 WORDS	95% MATCHING TEXT	12 WORDS

An economy should try to achieve low rate of inflation. The

An economy should try to achieve low rate of inflation. • Recession: The

W http://www.distanceeducationju.in/pdf/mcom2.pdf

35/151	SUBMITTED TEXT	43 WORDS	81% MATCHING TEXT	43 WORDS

period of economic activity when income, production, and employment tend to fall. Demand of products and services are reduced. Specific activities cause recession. The slowdown in the high-tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001.

period of economic activity when income, production and employment tend to fall recession. Demand product and services are reduced. Specific activities cause recession. The slow down in high tech sector, rising fuel prices, excessive consumer credit and terror attacks resulted in recession in America in 2001.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

36/151	SUBMITTED TEXT	15 WORDS	96% MATCHING TEXT	15 WORDS

Interest Rate If interest rate of an economy is high, businesses will borrow capital at

Interest Rate: If the interest rate of an economy is high, businesses will borrow capital at

W http://www.distanceeducationju.in/pdf/mcom2.pdf

37/151	SUBMITTED TEXT	20 WORDS	100% MATCHING TEXT	20 WORDS

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

W http://www.distanceeducationju.in/pdf/mcom2.pdf

38/151	SUBMITTED TEXT	37 WORDS	96% MATCHING TEXT	37 WORDS

rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even in existing businesses operating costs would go up as their working capital requirements will attract higher interest rates.

rate they are paying on the capital. Therefore if the interest rates are high, new businesses will not come. Even in existing businesses operating cost would go up as their working capital requirement will attract higher interest rates. 4.6.2

W http://www.distanceeducationju.in/pdf/mcom2.pdf

39/151	SUBMITTED TEXT	81 WORDS	96% MATCHING TEXT	81 WORDS

SUBMITTED TEXT	MATCHING TEXT
TECHNOLOGICAL FACTORS New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed through out the world depending upon where these activities can be performed best. Companies will be able to make better products at lesser cost and will be able to	Technological Factors New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs. The increasing computing and processing capabilities of personal computers is increasing the efficiency and effectiveness of businesses. Advances in information Technologies has made it possible to plan truly global supply chains, in which manufacturing and warehousing is disbursed through out the world depending upon where these activities can be performed at best. Companies will be able to make better products at lesser cost and will be able to

W http://www.distanceeducationju.in/pdf/mcom2.pdf

40/151	SUBMITTED TEXT	11 WORDS	100% MATCHING TEXT	11 WORDS

SUBMITTED TEXT	MATCHING TEXT
SOCIAL-CULTURAL FACTORS Customers live in societies. A large part of being	Social-cultural Factors Customers live in societies. A large part of being

W http://www.distanceeducationju.in/pdf/mcom2.pdf

41/151	SUBMITTED TEXT	171 WORDS	94% MATCHING TEXT	171 WORDS

SUBMITTED TEXT	MATCHING TEXT
of a individual is dependent on the society he resides he in. Social factors include attitudes, values, and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the products, the effectiveness of specific promotions, and how, where, and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence, and integrate into marketing plans. But it is important that marketers take into account social changes happening in societies in which their customers live when they are framing their marketing strategies. Societies can change in manners which can make companies' current products and services totally redundant. 2.4.1 Values A value is a strongly held and enduring belief. The majority of people living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation, and how he behaves in social situations.	of being a individual is dependent on the society he reside in. Social factors include attitudes, values and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the product, the effectiveness of specific promotions and how, where and when people expect to purchase products. But societies are hardly ever static. They change gradually and some changes will be imperceptible if not watched closely. Social change is the most difficult variable for marketing managers to forecast, influence and integrate into marketing plans. But it is important that marketers take into account social changes happening in societies in which their customer live when they are framing their marketing strategies. Societies can change in manners which can make companies current products and services totally redundant. • Value- A value is a strongly held and enduring belief. The majority of people Black Ice Software LLC Demo version 85 living in a society uphold the values of the society. A person's values are key determinants of what is important and not important to him, how he reacts in a particular situation and how he behaves in social situations. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

42/151	SUBMITTED TEXT	40 WORDS	91% MATCHING TEXT	40 WORDS

Multiple Lifestyles Lifestyle is a mode of living, i.e., it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interests rather than conforming to traditional stereotypes.

Multiple Lifestyles- Life style is a mode of living, i.e. it is the way people decide to live their lives. Today people lead multiple lifestyles. They are choosing products and services that meet diverse needs and interest rather than conforming to traditional stereotypes. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

43/151	SUBMITTED TEXT	70 WORDS	94% MATCHING TEXT	70 WORDS

Changing Structures of Families Multiple lifestyles have evolved because people can choose from a growing number of products and services, and most have the money to exercise more options. The growth of dual-income families has resulted in increased purchasing power. More women are working outside homes and this number is only going to increase. The phenomenon of working women has had greater effect on marketing strategies and initiatives of companies than any other social change.

Changing Structures of Families- Multiple lifestyles have evolved because people can choose from a growing number of and services and most have the money to exercise more options. The growth of dual-income families has resulted in increased purchasing power. More women are working outside homes and this number is only going to increase. The phenomenon of working women has greater impact on marketing strategies and initiatives of companies than any other social change. 4.6.4

W http://www.distanceeducationju.in/pdf/mcom2.pdf

44/151	SUBMITTED TEXT	25 WORDS	98% MATCHING TEXT	25 WORDS

DEMOGRAPHIC FACTORS Demography is the study people in terms of their age, gender, race, ethnicity, and location. Demographics are significant because people constitute markets. Demographics characteristics strongly

Demographic Factors Demography is the study of people in terms of their age, gender, race, ethnicity and location. Demographics are significant because people constitute markets. Demographics characteristics strongly

W http://www.distanceeducationju.in/pdf/mcom2.pdf

45/151	SUBMITTED TEXT	28 WORDS	100% MATCHING TEXT	28 WORDS

buyer behavior. Fast growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted to the elderly. 2.5.1

buyer behavior. Fast growth of population accompanied with rising income means expanding markets. The longer life span means a growing market for products and services targeted to the elderly. 4.6.5

W http://www.distanceeducationju.in/pdf/mcom2.pdf

46/151	SUBMITTED TEXT 19 WORDS	100% MATCHING TEXT 19 WORDS
	POLITICAL-LEGAL ENVIRONMENT Political-legal environment provides the legal framework within which the marketing department has to function. The political-legal environment of	Political-Legal Environment Political-Legal environment provides the legal framework within which the marketing department has to function. The political-legal environment of
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

47/151	SUBMITTED TEXT 18 WORDS	100% MATCHING TEXT 18 WORDS
	country is influenced by political structures and organizations, political stability, government's intervention in the business, constitutional provisions affecting businesses, government'	country is influenced by political structures and organizations, political stability, government's intervention in the business, constitutional provisions affecting businesses, government
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

48/151	SUBMITTED TEXT 42 WORDS	95% MATCHING TEXT 42 WORDS
	attitude towards business, foreign policy, etc. The viability of businesses depends upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavors due to fear of their infringing some laws. Stability of	attitude towards business, foreign policy etc. The viability of the businesses depend upon their ability to understand the laws of the land and to abide by them, while not becoming less innovative in their marketing endeavors due to fear of their infringing some laws. Stability of
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

49/151	SUBMITTED TEXT 22 WORDS	87% MATCHING TEXT 22 WORDS
	government is a very important factor in a company's decision to locate its businesses in a country or a state. Businesses prefer	government is a very important factor in a company's decision to locate its Black Ice Software LLC Demo version 86 businesses in a country or a state. Businesses prefer
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

50/151	SUBMITTED TEXT 14 WORDS	92% MATCHING TEXT 14 WORDS
	operate in countries where there is political stability and where rule of law prevails.	operate in countries where there is a political stability and where the rule of law prevails. 4.7
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

51/151	SUBMITTED TEXT	17 WORDS	73%	MATCHING TEXT	17 WORDS

Stability of government is an important factor in a company's decision to locate its businesses in a country or state.

Stability of government is a very important factor in a company's decision to locate its Black Ice Software LLC Demo version 86 businesses in a country or a state.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

52/151	SUBMITTED TEXT	33 WORDS	98%	MATCHING TEXT	33 WORDS

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. • Income of

The economic environment can have a major impact on businesses by affecting patterns of demand and supply. Companies need to keep a track of relevant economic indicators and monitor them over time. • Income: of

W http://www.distanceeducationju.in/pdf/mcom2.pdf

53/151	SUBMITTED TEXT	41 WORDS	91%	MATCHING TEXT	41 WORDS

indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customers, but he also has to decipher the products on which the customer would be willing to spend his money. •

indicates their ability to spend on the products sold by the marketer. The marketer not only needs to estimate the income of customer, but also he has to decipher the products on which the customer would be willing to spend his money. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

54/151	SUBMITTED TEXT	14 WORDS	96%	MATCHING TEXT	14 WORDS

If interest rate of an economy is high, businesses will borrow capital at

If the interest rate of an economy is high, businesses will borrow capital at

W http://www.distanceeducationju.in/pdf/mcom2.pdf

55/151	SUBMITTED TEXT	20 WORDS	100%	MATCHING TEXT	20 WORDS

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

higher rate and they will set up new businesses only when they are convinced that they can earn at a rate

W http://www.distanceeducationju.in/pdf/mcom2.pdf

56/151	SUBMITTED TEXT	16 WORDS	84%	MATCHING TEXT	16 WORDS

New technologies can be used very effectively to counter inflation and recession, and reduce production costs. •

New technologies can be used very effectively to counter inflation and recession. New machines can reduce production costs.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

57/151	SUBMITTED TEXT 32 WORDS	89% MATCHING TEXT 32 WORDS
	Advances in information technology has made it possible to plan truly global supply chains, in which manufacturing and warehousing are disbursed through out the world depending upon where these activities can be performed best.	Advances in information Technologies has made it possible to plan truly global supply chains, in which manufacturing and warehousing is disbursed through out the world depending upon where these activities can be performed at best.
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

58/151	SUBMITTED TEXT 38 WORDS	91% MATCHING TEXT 38 WORDS
	social factors include attitudes, values and lifestyles of people. These influence the products people buy; the prices they are willing to pay for the products; the effectiveness of specific promotions; and how, where and when people expect to purchase products. •	Social factors include attitudes, values and lifestyles of people. Social factors influence the products people buy, the prices they are willing to pay for the product, the effectiveness of specific promotions and how, where and when people expect to purchase products.
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

59/151	SUBMITTED TEXT 16 WORDS	78% MATCHING TEXT 16 WORDS
	Demographics strongly affect buyer behaviour. Fast growth of population accompanied with rising income means expanding markets.	Demographics characteristics strongly buyer behavior. Fast growth of population accompanied with rising income means expanding markets.
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

60/151	SUBMITTED TEXT 15 WORDS	100% MATCHING TEXT 15 WORDS
	longer life span means a growing market for products and services targeted to the elderly. •	longer life span means a growing market for products and services targeted to the elderly. 4.6.5
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

61/151	SUBMITTED TEXT 20 WORDS	81% MATCHING TEXT 20 WORDS
	government is very important in a company's decision to locate its businesses in a country or a state. Businesses prefer	government is a very important factor in a company's decision to locate its Black Ice Software LLC Demo version 86 businesses in a country or a state. Businesses prefer
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

62/151	SUBMITTED TEXT 14 WORDS	92% MATCHING TEXT 14 WORDS
	operate in countries where there is political stability and where rule of law prevails.	operate in countries where there is a political stability and where the rule of law prevails. 4.7
	W http://www.distanceeducationju.in/pdf/mcom2.pdf	

63/151	SUBMITTED TEXT	14 WORDS	96% MATCHING TEXT	14 WORDS
	is the study people in terms of their age, gender, race, ethnicity, and location •		is the study of people in terms of their age, gender, race, ethnicity and location.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

64/151	SUBMITTED TEXT	13 WORDS	76% MATCHING TEXT	13 WORDS
	increase in prices without a corresponding increase in wages, resulting in lower purchasing		increase in price without a corresponding rise in wages, resulting in lower purchasing	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

65/151	SUBMITTED TEXT	11 WORDS	100% MATCHING TEXT	11 WORDS
	the legal framework within which the marketing department has to function. •		the legal framework within which the marketing department has to function.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

66/151	SUBMITTED TEXT	12 WORDS	100% MATCHING TEXT	12 WORDS
	period of economic activity when income, production and employment tend to fall. 2.12		period of economic activity when income, production and employment tend to fall	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

67/151	SUBMITTED TEXT	16 WORDS	100% MATCHING TEXT	16 WORDS
	Demography is the study of people in terms of their age, gender, race, ethnicity and location. 6.		Demography is the study of people in terms of their age, gender, race, ethnicity and location.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

68/151	SUBMITTED TEXT	22 WORDS	87% MATCHING TEXT	22 WORDS
	government is a very important factor in a company’s decision to locate its businesses in a country or a state. Businesses prefer		government is a very important factor in a company’s decision to locate its Black Ice Software LLC Demo version 86 businesses in a country or a state. Businesses prefer	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

69/151	SUBMITTED TEXT	14 WORDS	92% MATCHING TEXT	14 WORDS
	operate in countries where there is political stability and where rule of law prevails.		operate in countries where there is a political stability and where the rule of law prevails. 4.7	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

70/151	SUBMITTED TEXT	16 WORDS	71% MATCHING TEXT	16 WORDS
	OBJECTIVES After going through this unit, you will be able to: • Understand the concept of marketing		OBJECTIVES After this unit, you should be able to: • understand the concept of marketing •	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

71/151	SUBMITTED TEXT	23 WORDS	94% MATCHING TEXT	23 WORDS
	Marketing Implementation There is need to develop strategies that are more than customer based. The strategy should also focus on attacking and defending against competitors.		Marketing There is need to develop strategies that are more than customer based. The strategy should also focus on attacking and defending against competitors.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

72/151	SUBMITTED TEXT	14 WORDS	100% MATCHING TEXT	14 WORDS
	Attractive conditions A build objective is suitable in growth markets. Because overall market sales		Attractive Conditions A build objective is suitable in growth markets. Because overall market sales	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

73/151	SUBMITTED TEXT	203 WORDS	98% MATCHING TEXT	203 WORDS

SUBMITTED TEXT

growing, all players can achieve higher sales. But a in mature market (no growth), increase in sales of one player has to be at the expense of competition (zero sum game). In growth markets, market growth will help fill capacity without recourse to aggressive retaliatory action whereas in mature markets capacity utilization will improve only at the expense of competition. A build objective makes sense in growth markets because new users are being attracted to the product. Since these new users do not have an established brand or supplier loyalty, it is logical to invest resources into attracting them to the company's product offering. Provided the product meets their expectations, trial during growth phase can lead to the building of goodwill and loyalty as market matures. The build objective is also attractive in mature (no growth) markets where there are exploitable competitive weaknesses. A competitor may not be providing adequate service. Exploitable competitive weakness allow the creation of a differential advantage. A build objective is also attractive when the company has exploitable corporate strengths. When taking on a market leader, a necessary condition is adequate corporate resources, because the leader will retaliate forcefully. Finally, the build objective is attractive when experiences curve effects are believed to be strong. By building sales faster than competition, a company can achieve position of cost leader.

MATCHING TEXT

growing, all players can achieve higher sales. But a in mature market (no growth), Black Ice Software LLC Demo version 235 increase in sales of one player has to be at the expense of competition (zero sum game). In growth markets, market growth will help fill capacity without recourse to aggressive retaliatory action whereas in mature markets capacity utilization will improve only at the expense of competition. A build objective makes sense in growth markets because new users are being attracted to the product. Since these new users do not have an established brand or supplier loyalty, it is logical to invest resources into attracting them to the company's product offering. Provided the product meets their expectations, trial during growth phase can lead to the building of goodwill and loyalty as market matures. The build objective is also attractive in mature (no growth) markets where there are exploitable competitive weaknesses. A competitor may not be providing adequate service. Exploitable competitive weakness allow the creation of a differential advantage. A build objective is also attractive when the company has exploitable corporate strengths. When taking on a market leader, a necessary condition is adequate corporate resources, because the leader will retaliate forcefully. Finally, the build objective is attractive when experiences curve effects are believed to be strong. By building sales faster than competition, a company can achieve position of cost leader.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

74/151	SUBMITTED TEXT	245 WORDS	98% MATCHING TEXT	245 WORDS

SUBMITTED TEXT

Strategic focus A build objective can be achieved by market expansion, winning market share from competition, by mergers or acquisitions, and by forming strategic alliances. „ Market expansion This is brought about by creating new users, or new uses, or by increasing frequency of purchase. New users may be found by expanding internationally or by moving to a larger target market. New uses can be promoted. Increasing the frequency of use may rely upon persuasive communication. For example, a shampoo manufacturer can persuade consumers to use more per occasion or encourage more frequent usage of the product. „ Winning market share This indicates gaining market share at the expense of competition. Principles of offensive warfare apply in this case. These are to consider the strengths of the leader's position, to find a weakness in the leader's strength and attack at that point. (i) Frontal attack This involves the challenger taking on the defender head on. The challenger attacks the main market of the market leader by launching a product with a similar or superior marketing mix. The market leader gets most of its revenues and profits from this market segment. If the defender is a market leader, the success of challenger depends on a clear and sustainable competitive advantage. If the advantage is based on cost leadership, this will support a low price strategy to fight the market leader. A distinct differential advantage possessed by the challenger provides basis for superior customer value by which customers can be enticed. Second, the challenger should match the leader in other activities. Third, success is more likely if there is some

MATCHING TEXT

Strategic Focus A build objective can be achieved by market expansion, winning market share from competition, by mergers or acquisitions, and by forming strategic alliances. • Market expansion: This is brought about by creating new users, or new uses, or by increasing frequency of purchase. New users may be found by expanding internationally or by moving to a larger target market. New uses can be promoted. Increasing the frequency of use may rely upon persuasive communication. For example, a shampoo manufacturer can persuade consumers to use more per occasion or encourage more frequent usage of the product. Black Ice Software LLC Demo version 236 • Winning market share: This indicates gaining market share at the expense of competition. Principles of offensive warfare apply in this case.? These are to consider the strengths of the leader's position, to find a weakness in the leader's strength and attack at that point. Attack Strategies (Frontal attack: This involves the challenger taking on the defender head on. The challenger attacks the main market of the market leader by launching a product with a similar or superior marketing mix. The market leader gets most of its revenues and profits from this market segment, If the defender is a market leader, the success of challenger depends on a clear and sustainable competitive advantage. If the advantage is based on cost leadership, this will support a low price strategy to fight the market leader. A distinct differential advantage possessed by the challenger provides basis for superior customer value by which customers can be enticed. Second, the challenger should match the leader in other activities. Third, success is more likely if there is some

W http://www.distanceeducationju.in/pdf/mcom2.pdf

75/151	SUBMITTED TEXT	393 WORDS	99% MATCHING TEXT	393 WORDS

SUBMITTED TEXT

restriction on the leader's ability to retaliate. Restrictions include patent protection, pride, technological lead times and costs of retaliation. Where a differential advantage or cost leadership is supported by patent protection, imitation by market leader will be difficult. Pride may hamper retaliation. The market leader refuses to imitate because to do so would admit that the challenger has outsmarted the leader. Where the challenge is based upon a technological innovation, it may take time to put in place the new technology. Retaliation may also be difficult because of the prohibitive costs involved. The risks of damaging brand image and lowering profit margins may also deter the market leader from responding to price challenges. Finally, the challenger needs adequate resources to withstand the battle that will take place should the leader retaliate. Sustainability is necessary to stretch the leader's capability to respond. The challenger should understand that the entrenched player will fight hard and long. The challenger should have the will and resources to engage the market leader in long battle for market supremacy. (ii) Flanking attack Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. The Japanese attacked the small car segment, from which they expanded into other segments. Mars attacked Unilever's Wall's ice cream by launching a range of premium brands. Unilever's response was to launch a range of premium brands themselves and to defend their shop vigorously. Unilever entered into exclusivity deals with retailers which prevented competitors from selling their products in shops which sold Wall's ice creams, and freezer exclusivity prevented competition from placing their ice cream in Unilever supplied freezer cabinets. The advantage of a flanking attack is that it does not provoke the same kind of response as a head on confrontation. Since defender is not challenged in its main market segment, there is chance that it will ignore the challenger's initial success. If the defender dallies too long, the flank segment can be used as a beach head from which to attack the defender in its major markets. (iii) Encirclement attack Encirclement attack involves attacking the defender from all sides. Every market segment is hit with every combination of product features and prices to completely encircle the defender. An example is Seiko which produces over 2000 designs of watches for market worldwide. They cover everything the customer might want in terms

MATCHING TEXT

restriction on the leader's ability to retaliate. Restrictions include patent protection, pride, technological lead times and costs of retaliation. Where a differential advantage or cost leadership is supported by patent protection, imitation by market leader will be difficult. Pride may hamper retaliation. The market leader refuses to imitate because to do so would admit that the challenger has outsmarted the leader. Where the challenge is based upon a technological innovation, it may take time to put in place the new technology. Retaliation may also be difficult because of the prohibitive Black Ice Software LLC Demo version 237 costs involved. The risks of damaging brand image and lowering profit margins may also deter the market leader from responding to price challenges. Finally, the challenger needs adequate resources to withstand the battle that will take place should the leader retaliate. Sustainability is necessary to stretch the leader's capability to respond. The challenger should understand that the entrenched player- will fight hard and long. The challenger should have the will and resources to engage the market leader in long battle for market supremacy. (ii) Flanking attack: Flanking involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. The Japanese attacked the small car segment, from which they expanded into other segments. Mars attacked Unilever's Wall's ice cream by launching a range of premium brands. Unilever's response was to launch a range of premium brands themselves and to defend their shop vigorously. Unilever entered into exclusivity deals with retailers which prevented competitors from selling their products in shops which sold Wall's ice creams, and freezer exclusivity prevented competition from placing their ice cream in Unilever supplied freezer cabinets. The advantage of a flanking attack is that it does not provoke the same kind of response as a head on confrontation. Since defender is not challenged In its main market segment, there is chance that it will ignore the challenger's-lnlttaf success. If the defender dallies too long, the flank segment can be used as a beach head from which to attack the defender in its major markets. (iii) Encirclement attack: Encirclement attack involves attacking the defender from all sides. Every market segment is hit with every combination of product features and prices to completely encircle the defender. An example is Seiko which produces over 1900 designs of watches for market worldwide. They cover everything the customer might want in terms

W http://www.distanceeducationju.in/pdf/mcom2.pdf

76/151	SUBMITTED TEXT	126 WORDS	94% MATCHING TEXT	126 WORDS

SUBMITTED TEXT

approach is to cut off supplies to the defender, by acquiring major supply companies. (iv) Bypass attack This attack involves circumventing the defender's position. The attacker changes the rules of the game, usually through technological leap-frogging. The company can revert to making a simpler product with very low prices or it can incorporate a new technology in its product which enhances the value of the product by a big margin. A bypass attack can also be accomplished through diversification. The attacker can bypass a defender by seeking growth in new markets with new products. (v) Guerilla attack The attacker hurts the defender by pin-pricks rather than blows. Underdogs can make life uncomfortable for its stronger rivals. Unpredictable price discounts, sales promotions, or heavy advertising in a few segments and regions are some tactics that attackers can use. 58

MATCHING TEXT

approach is to cut off supplie to the defender, by acquiring major supply companies. Black Ice Software LLC Demo version 238 (iv)Bypass attack: This attack involves circumventing the defender's position. The attacker changes the rules of the game, usually through technologicalleap-frogging. The company can revert to making a simpler product with very low prices or it can incorporate a new technology in its product which enhances the value of the product by a big margin. A bypass attack can also be accomplished through diversification. The attacker can bypass a defender by seeking growth in new markets with new products. (v) Guerilla attack: The attacker hurts the defender by pin-pricks rather than blows. Underdogs can make life uncomfortable for its stronger rivals. Unpredictable price discounts, sales promotions. or heavy advertising in a few segments and regions are some tactics that attackers can use.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

77/151	SUBMITTED TEXT	394 WORDS	98% MATCHING TEXT	394 WORDS

SUBMITTED TEXT

Guerilla tactics may be the only feasible option for a small company facing a larger competitor. Such tactics allow the small company to make its presence felt without dangers of a full frontal attack. By being unpredictable, the guerilla attack is difficult to defend against. But such tactics run the risk of incurring the wrath of the defender who may choose to retaliate with full frontal attack if sufficiently provoked. z Mergers or acquisitions Build objectives can be achieved by merging with, or acquiring competitors. By joining forces, costly marketing battles can be avoided and synergies may be gained in various departments such as purchasing, production, financial, marketing and R&D. A merger can facilitate scale of operations that may be required by the firm to operate as an international force in the market. Mergers and acquisitions give an immediate sales boost and when the players operate in the same market, an increase in market share. Mergers are risky especially when they involve parties from different countries. Differences in culture, language, business practices and problems associated with restructuring may cause terminal strains. z Forming strategic alliance A company can build through strategic alliances. The aim is to create a long term competitive advantage for the partners, often on a global scale. The partners can collaborate by means of a joint venture (a jointly owned company), licensing agreements, long term purchasing and supply arrangements, or joint R&D programs. Strategic alliances maintain a degree of flexibility not apparent with merger or acquisition. By strategic alliances, partners can share the product development costs and risks. Through strategic alliances access to new markets and distribution channels can be achieved, time to market reduced, product gaps filled and product lines widened. A strategic alliance can be the initial stage to a merger or acquisition, allowing each party to assess their abilities to work together effectively. There should be desire and ability to learn from alliance partners. The risk in any form of strategic alliance is that the alliance can leak technological and core capabilities to the partner, thereby giving away important competitive information. Thus one way transfer of skills should be avoided by building barriers to capability seepage. Core competencies should be protected at all costs. This is easier when a company has few alliances, or when only a limited part of organization is involved in the alliance, or when relationships built up in the alliance are stable. Hold objective Hold objectives involve defending a company's current position against imminent competition. The principles of defensive warfare are relevant i.e. strong competitive moves should always be blocked.

MATCHING TEXT

Guerilla tactics may be the only feasible option for a small company facing a larger' competitor. Such tactics allow the small company to make its presence felt without the dangers of a full frontal attack. By being unpredictable, the guerilla attack is difficult to defend against. But such tactics run the risk of incurring the wrath of the defender who may choose to retaliate with full frontal attack if sufficiently provoked. • Mergers or acquisitions: Build objectives can be achieved by merging with, or acquiring competitors. By joining forces, costly marketing battles can be avoided and synergies may be gained in various departments such as purchasing, production. financial, marketing and R&D. A merger can facilitate scale of operations that may be required by the firm to operate as an international force in the market. Mergers and acquisitions give an immediate sales boost and when the players operate in the same market, an increase in market share. Mergers are risky especially when they involve parties from different countries. Differences in culture, language, business practices and problems associated with restructuring may cause terminal- strains. • Forming strategic alliance: A company can build through strategic alliances. The aim is to create a long term competitive advantage for the partners, often on a global scale. The partners can collaborate by means of a joint venture (a jointly owned company), licensing agreements, long term purchasing and supply Black Ice Software LLC Demo version 239 arrangements, or joint R&D programs. Strategic alliances maintain a degree of flexibility not apparent with merger or acquisition. By strategic alliances, partners can share the product development costs and risks. Through strategic alliances access to new markets and distribution channels can be achieved, time to market reduced, product gaps filled and product lines widened. A strategic, alliance can be the initial stage to a merger or acquisition, allowing each party to assess their abilities to work together effectively. There should be desire and ability to learn from alliance partners. The risk in any form of strategic alliance is that the alliance can leak technological and core capabilities to the partner, thereby giving away important competitive information. Thus one way transfer of skills should be avoided by building barriers to capability seepage. Core competencies should be protected at all costs. This is easier when a company has few alliances, or when only a limited part of organization is involved in the alliance, or when relationships built up in the alliance are stable. Hold Objective Hold objectives involve defending a company's current position against imminent competition. The principles of defensive warfare are relevant, i.e. strong competitive moves should always be blocked.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

78/151	SUBMITTED TEXT	129 WORDS	97% MATCHING TEXT	129 WORDS
	Attractive conditions The classic situation where a hold objective makes strategic sense is for a market leader in a mature or declining market. This is the standard cash cow position. By holding on to market leadership, a product should generate positive cash flows which can be used elsewhere in the company to build other products. Holding on to market leadership makes sense because brand leaders enjoy the marketing benefits of bargaining power with distribution channel members and brand image, as well as enjoying experience curve effects that reduce costs. In a declining market, maintaining market leadership may result in the company becoming a virtual monopolist as weaker competitors withdraw. A second situation where the costs of attempting to build sales and market share outweigh the benefits are when there are aggressive rivals who would respond strongly if attacked.		Attractive Conditions The classic situation where a hold objective makes strategic sense is for a market leader in a mature or declining market. This is the standard cash cow position. By holding on to market leadership, a product should generate positive cash flows which can be used elsewhere in the company to build other products. Holding on to market leadership makes sense because brand leaders enjoy the marketing benefits of bargaining power with distribution channel members and brand image, as well as enjoying experience curve effects that reduce costs. In a declining market, maintaining market leadership may result in the company becoming a virtual monopolist as weaker competitors withdraw. A second situation where the costs of attempting to build sales Black Ice Software LLC Demo version 240 and market share outweigh the benefits are when there are aggressive rivals who would respond strongly if attacked.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

79/151	SUBMITTED TEXT	293 WORDS	93% MATCHING TEXT	293 WORDS

SUBMITTED TEXT	MATCHING TEXT
It may then be prudent to be content with the status quo and avoid actions that are likely to provoke competition. z Strategic focus A hold objective may be achieved by monitoring competition or by confronting the competition. „ Monitoring the competition When there is competitive stability, everyone is playing the good competitor's game, content with what they have and no one is willing to destabilize the industry structure. Monitoring is necessary to check that there are no significant changes in competitor behavior but beyond that no change in strategy is required. „ Confronting the competition Rivalry is more pronounced among existing players since the product is in the maturity or the decline stage. Strategic action may be required to defend sales and market share from aggressive challenges. (i) Position defense Position defense involves building fortification around one's existing territory, which translates into building fortification around existing products. The company has a good product which is priced competitively and promoted effectively. This will work if products have differential advantage that are not easily copied, for instance, through patent protection. Brand and reputation may provide strong defense. But this strategy can be dangerous. The customers' needs or the underlying technologies of the product may have changed but the company may refuse to change track fearing that it will damage its current positioning and reputation. (ii) Flanking defense Flanking defense is defending a hitherto unprotected market segment, because it will provide a beach head for new entrants to gain experience in the market and attack the main market later. It makes sense for a defender to compete by launching a suitable offering in a segment that is unattractive in the short run, if it helps to avoid or slow down competitive inroads. But if this effort is half hearted, it will not help. Failure to defend an emerging market segment may be dangerous later as competitors will entrench themselves in the unprotected segment. (iii) Preemptive	It may then be prudent to be content with the status quo and avoid actions that are likely to provoke competition. Strategic Focus A hold objective may be achieved by monitoring competition or by confronting the competition. • Monitoring the competition: When there is cornpeutive stability, everyone is playing the good competitor's game, content with what they have and no one is willing to destabilize the industry structure. Monitoring is necessary to check that there are no significant changes in competitor behaviour but beyond that no change in strategy is required. • Confronting the competition: Rivalry is more pronounced among existing players since the product is in the maturity or the decline stage. Strategic action may be required to defend sales and market share from aggre sive challenges. Defence Strategies (Position defence: Position defence involves building fortification around one's existing territory, which translates into building fortification around existing products. The company has a good product which is priced competitively and promoted effectively. This will work if products have differential advantage that are not easily copied, for instance, through patent protection. Brand and reputation may provide strong defence. But this strategy can be dangerous. The customers' needs or the Black Ice Software LLC Demo version 241 underlying technologies of the product may have changed but the company may refuse to change track fearing that it will damage its current positioning and reputation. (ii) Flanking defence: Flanking defence is defending a hitherto unprotected market segment, because it will provide a beach head for new entrants to gain experience in the market and attack the main market later. It makes sense for a defender to compete by launching a suitable offering in a segment that is unattractive in the short run, if it helps to avoid or slow down competitive inroads. But if this effort is hall hearted, it will not help. Failure to defend an emerging market segment may be dangerous later as competitors will entrench themselves in the unprotected segment. (iii) Preemptive

W http://www.distanceeducationju.in/pdf/mcom2.pdf

80/151	SUBMITTED TEXT	15 WORDS	90% MATCHING TEXT	15 WORDS

SUBMITTED TEXT	MATCHING TEXT
Attack first: This involves continuous innovation and new product development. The defender proactively defends its	Attack first: This involves continuous innovation and new product development. The defender operatively defends its

W http://www.distanceeducationju.in/pdf/mcom2.pdf

81/151	SUBMITTED TEXT	132 WORDS	95% MATCHING TEXT	132 WORDS

adopting such measures. This may dissuade a would-be attacker. Counter offensive defense: In head on counterattacks, a defender matches or exceeds what the attacker has done. This may involve heavy price cutting or promotion expenditure. This may be costly but may be justified to deter a persistent attacker. A counterattack may be based on innovation. Hitting the attacker's cash cow strikes at the attacker's resource supply line. Encircle the attacker: The defender launches brands to compete directly against attacker's brands. Mobile defense: When a company's major market is under threat, a mobile defense makes strategic sense. The two options in a mobile defense are diversification and market broadening. Diversification involves attempts to serve a different market with a different product. The company will have to check if it has the competencies to serve the new market effectively. Market broadening involves broadening the business 60

adopting such measures. This may dissuade a would-be attacker. (iv)Counter offensive defence: In head on counterattacks, a defender matches or exceeds what the attacker has done. This may involve heavy price cutting or promotion expenditure. This may be costly but may be justified to deter a persistent attacker. A counterattack may be based on innovation. Hitting the attacker's cash cow strikes at the attacker's resource supply line. Encircle the attacker: The defender launches brands to compete directly against attacker's brands. (v) Mobile defence: When a company's major market is under threat, a mobile defence makes strategic sense. The two options in a mobile defence are diversification and market broadening. Diversification involves attempts to serve a different market with a different product. The company will have to check if it has the competencies to serve the new market effectively. Market broadening involves broadening the business

W http://www.distanceeducationju.in/pdf/mcom2.pdf

82/151	SUBMITTED TEXT	113 WORDS	96% MATCHING TEXT	113 WORDS

definition. In the face of declining cinema audiences, film companies redefined their business as entertainment providers rather than film makers and moved into TV, magazines, gambling, theme parks etc. Strategic withdrawal: The defender defines its strengths and weaknesses, and then hold on to its strengths while divesting its weak businesses. The company therefore concentrates on its core business. A strategic withdrawal allows a company to focus on its core competencies. This is often required when diversification has resulted in too wide a spread of activities away from what it does well. Niche objective The company may pursue a small market or even a segment within a segment. Such a strategy may avoid competition with companies which are serving the major market segments. But

definition. In the face of declining cinema audiences. film companies redefined their business as entertainment providers rather than film makers and moved into TV, magazines, gambling, theme parks etc. Black Ice Software LLC Demo version 242 (vi)Strategic withdrawal: The defender defmes its strengths and weaknesses, and then hold on to its strengths while divesting its weak businesses. The company therefore concentrates on its core business. A strategic withdrawal allows a company to focus on its core competencies. This is often required when diversification has resulted in too wide a spread of activities away from what it does well. Niche Objective The company may pursue a small market or even a segment within a segment. Such a strategy may avoid competition with companies which are serving the major market segments. But

W http://www.distanceeducationju.in/pdf/mcom2.pdf

83/151	SUBMITTED TEXT	10 WORDS	100% MATCHING TEXT	10 WORDS

niche is successful, large competitors are attracted into the segment

niche is successful, large competitors are attracted into the segment

W http://www.distanceeducationju.in/pdf/mcom2.pdf

84/151	SUBMITTED TEXT 222 WORDS	97% MATCHING TEXT 222 WORDS
	Attractive conditions Niching may be the only feasible objective for companies with small budgets and where strong competitors are dominating the main segment. But there should be pockets within the market that provide the opportunity for profitable operations, and in which competitive advantage can be created. These conditions apply when major players are underserving a particular group of customers as they attempt to meet the needs of majority of customers, and where market niche is too small to be of interest to them. z Strategic focus A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of company to serve it. Focused R&D expenditure gives a small company a chance to make effective use of limited resources. The emphasis should be on creating and sustaining a differential advantage through intimately understanding the needs of the customer group and focusing attention on satisfying those needs better than competition. Niche operators should be wary of pursuing growth strategies by broadening their customer base. This will lead to the blurring of differential advantage upon which their success has been built. Niche companies trade on exclusivity, and to broaden their market base would run the risk of diluting their differential advantage. Nichers consciously think small, eschewing unsustainable growth in favor of profitability. The emphasis is on high margins not high volume.	Attractive Conditions Niching may be the only feasible objective for companies with small budgets and where strong competitors are dominating the main segment. But there should be pockets within the market that provide the opportunity for profitable operations, and in which competitive advantage can be created. These conditions apply when major players are underserving a particular group of customers as they attempt to meet the needs of majority of customers, and where market niche is too small to be of interest to them. Strategic Strategic Focus A strategic tool for nichers is market segmentation. They should search for underserved segments that may provide profitable opportunities. The choice of the segment will depend upon the attractiveness of the niche and the capability of company to serve it. Focused R&D expenditure gives a small company a chance to make effective use of limited resources. 12 The emphasis should be on creating and sustaining a differential advantage through intimately understanding the needs of the customer group and focusing attention on satisfying those needs better than competition. Niche operators should be wary of pursuing growth strategies by broadening their customer base. This will lead to the blurring of differential advantage upon which their success has been built. Niche companies trade on exclusivity, and to broaden their market base would run the risk of diluting their differential advantage. Nichers consciously think small, eschewing unsustainable growth in favour of profitability. The emphasis is on high margins not pigh volume.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

85/151	SUBMITTED TEXT 44 WORDS	100% MATCHING TEXT 44 WORDS
	Harvest strategy attempts to improve unit profit margins even if the result is falling sales. Although sales are falling, the aim is to make the company or product extremely profitable in the short term generating large positive cash flows that can be used elsewhere in business.	Harvest strategy attempts to improve unit profit margins even if the result is falling sales. Although sales are falling, the aim is to make the company or product extremely profitable in the short term generating large positive cash flows that can be used elsewhere in business.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

86/151	SUBMITTED TEXT	122 WORDS	100% MATCHING TEXT	122 WORDS

mature or declining markets are the prime targets for harvest strategies, since they lose money or earn very little and take up valuable management time and resources. Harvesting can move them to a profitable stance, and reduce management attention to minimum. In growth markets harvesting makes sense where the costs of building or holding exceeds the benefits. The problem children or products that have little long term potential can be harvested. Harvesting is attractive if a core of loyal customers exist, which means that sales decline to a stable level. A final attractive condition is where future breadwinners exist in the company and they need resources which will come from harvesting products or businesses within the company. But harvesting a one product company is likely to lead to its demise.

mature or declining markets are the prime targets for harvest strategies, since they lose money or earn very little and take up valuable management time and resources. Harvesting can move them to a profitable stance, and reduce management attention to minimum. In growth markets harvesting makes sense where the costs of building or holding exceeds the benefits, The problem children or products that have little long term potential can be harvested. Harvesting is attractive if a core of loyal customers exist, which means that sales decline to a stable level. A final attractive condition is where future breadwinners exist in the company and they need resources which will come from harvesting products or businesses within the company. But harvesting a one product company is likely to lead to its demise.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

87/151	SUBMITTED TEXT	90 WORDS	100% MATCHING TEXT	90 WORDS

Strategic focus Harvesting involves eliminating R&D and marketing expenditure. Only the very essential expenditures are incurred. The only product change that will be contemplated is reformulation that reduces raw materials and manufacturing costs. Rationalization of product line to one or a few top sellers cuts costs by eliminating expensive product variants. Marketing support is reduced by slashing advertising and promotional budgets while every opportunity is taken to increase price. Continued harvesting will make the business very weak and eventually unviable. The company has to make a decision as to when it should stop harvesting and sell the business.

Strategic Focus Harvesting involves eliminating R&D and marketing expenditure. Only the very essential expenditures are incurred. The only product change that will be contemplated is reformulation that reduces raw materials and manufacturing costs. Rationalization of product line to one or a few top sellers cuts costs by eliminating expensive product variants. Marketing support is reduced by slashing advertising and promotional budgets while every opportunity is taken to increase price. Continued harvesting will make the business very weak and eventually unviable. The company has to make a decision as to when it should stop harvesting and sell the business.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

88/151	SUBMITTED TEXT	48 WORDS	100% MATCHING TEXT	48 WORDS

It is never a good idea to persist harvesting for such a long time that no buyer finds anything worthwhile left in the business. Divest objectives A company may decide to divest itself from a SBU or a product. It stems the flow of cash to poorly performing area of its business.

It is never a good idea to persist harvesting for such a long time that no buyer finds anything worthwhile left in the business. Divest Objectives A company may decide to divest itself from a SBU or a product. It stems the flow of cash to poorly performing area of its business.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

89/151	SUBMITTED TEXT	113 WORDS	96% MATCHING TEXT	113 WORDS

Attractive conditions Divestment is associated with loss making products or businesses that are a drain on both financial and managerial resources, or it is judged that costs of turnaround exceed benefits. Also-rans in the growth phase may be divested, sometimes after harvesting has run its full course. But care must be taken to examine interrelationships within corporate portfolios. For instance, if a product is making a loss, it would still be worthwhile supporting, if its removal would adversely affect sales of other products in the company as the less profitable product complements the more profitable product. In some industrial markets, customers expect a supplier to provide a full range of products. Therefore, even though some products may not be profitable, sales

Attractive Conditions Divestment is associated with loss making products or businesses that are a drain on both financial and managerial resources, or it is judged that costs of turnaround exceed benefits. Also-tans in the growth phase may be divested sometimes after harvesting has run its full course. But care must be taken to examine interrelationships within corporate portfolios. For instance, if a product is making a loss, it would still be Black Ice Software LLC Demo version 247 worthwhile supporting, if its removal would adversely affect sales of other products in the company as the less profitable product complements the more profitable product. In some industrial markets, customers expect a supplier to provide a full range of products. Therefore, even though some products may not be profitable, sales

W http://www.distanceeducationju.in/pdf/mcom2.pdf

90/151	SUBMITTED TEXT	12 WORDS	100% MATCHING TEXT	12 WORDS

whole range may be affected if the loss making products are dropped.

whole range may be affected if the loss making products are dropped.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

91/151	SUBMITTED TEXT	71 WORDS	100% MATCHING TEXT	71 WORDS

Strategic focus Because of a drain on profits and cash flows, focus should be to get out quickly so as to minimize costs. If a buyer can be found then some return may be realized. If not, the product will be withdrawn. A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price. A company

Strategic Focus Because of a drain on profits and cash flows, focus should be to get out quickly so as to minimize costs. If a buyer can be found then some return may be realized. If not, the product will be withdrawn. A company may continue to harvest one of its businesses and sap all vitality from it. Such a business will not be attractive to buyers and will not fetch a good price. A company 10.4

W http://www.distanceeducationju.in/pdf/mcom2.pdf

92/151	SUBMITTED TEXT	49 WORDS	100% MATCHING TEXT	49 WORDS

Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. 8. The

Flanking attack involves attacking unguarded or weakly guarded grounds. It means attacking geographical areas or market segments where the defender is poorly represented. The market does not consider the segment lucrative and allows the initial incursion. The attack by Japanese companies in the US car market was a flanking attack. The

W http://www.distanceeducationju.in/pdf/mcom2.pdf

93/151	SUBMITTED TEXT	15 WORDS	70% MATCHING TEXT	15 WORDS

OBJECTIVES After going through this unit, you will be able to: • Understand the concept of

OBJECTIVES After reading this unit, you should be able to: • understand the concept of

W http://www.distanceeducationju.in/pdf/mcom2.pdf

94/151	SUBMITTED TEXT	16 WORDS	68% MATCHING TEXT	16 WORDS

OBJECTIVES After going through this unit, you will be able to: • Understand the concept of segmentation •

OBJECTIVES After reading this unit, you should be able to: • Understand the concept of Segmentation •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

95/151	SUBMITTED TEXT	44 WORDS	86% MATCHING TEXT	44 WORDS

Distribution can be patchy as some dealers will be wary of stocking the new product as they may not be sure of its acceptability by customers but it is very important to ensure adequate distribution of the product. Company's promotional programs build up awareness, 154

Distribution can be patchy as some dealers will be wary of stocking the new products as they may not be sure of its acceptability by customers Black Ice Software LLC Demo version 333 but it is very important to ensure adequate distribution of the product. Company's promotional programs builds up awareness,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

96/151	SUBMITTED TEXT	82 WORDS	92% MATCHING TEXT	82 WORDS

curiosity, and desire for the product but when customers do not find the product on the shelves, they tune out the product from their minds for a very long time. In fact, before the company starts its promotional blitz, it should ensure that the products are available on the shelves. They may have to provide extra benefits to wholesalers and retailers to stock the new product. Most new products fail due to lack of their availability rather than due to customers not wanting to buy the product.

curiosity and the desire for the product the company, but when the customer doesn't find the product on the shelves, they tune out the product from their minds for a very long time. In fact, before the company starts its promotional blitz, it should ensure that the products are available on the shelves. They may have to provide extra benefits to wholesalers and retailers to stock the new product. Most new products fail due to lack of their availability rather than due to customers not wanting to buy the product. 12.5

W http://www.distanceeducationju.in/pdf/mcom2.pdf

97/151	SUBMITTED TEXT	113 WORDS	87% MATCHING TEXT	113 WORDS

Submitted text:

the product at this stage and are convinced that it serves their needs. Customers understand the generic benefits of the product and the company now builds sales and market share by building brand preference. The product is redesigned to create differentiation, and promotion lays stress on the benefits of the differentiated product. Focus is on ensuring repeat purchases. The company tries to achieve this purpose by focusing its efforts on building a strong brand. A strong build at this stage helps the company to fight competition as they emerge in hordes at this stage. There is pressure on prices due to entry of large number of competitors. At this stage different segments start emerging, and the company has to make

Matching text:

the product. At this stage customer become more aware of the product and are convinced that it serves their needs. Customers understand the generic benefits of the product and the company now build sales and market share by building brand preference. The product is redesigned to create differentiation and promotion lays stress on the benefits of differentiated product. Focus is on ensuring repeat purchases. The company tries to achieve this purpose by focusing its efforts on building a strong brand. A strong brand at this stage helps the company to fight competition as thy emerge in hordes at this stage. There is a pressure on prices due to entry of large number of competitors. During this phase of growth, different segments start emerging and the company has to make

W http://www.distanceeducationju.in/pdf/mcom2.pdf

98/151	SUBMITTED TEXT	128 WORDS	95% MATCHING TEXT	128 WORDS

Submitted text:

decision as to which of the segments it will attempt to serve. Some pioneers try to serve the whole market with one or a few standard products even when segments have clearly emerged. This is a mistake. Focused competitors will emerge, which will target specific segments and take away market share from each of the segments. Most pioneers lose their first-mover advantage by their attempt to indiscriminately serve all the segments as they did in the introduction stage. The pioneer should select a few lucrative segments and target those segments with separate offerings for each of them. Distribution will be widened to serve the new segments but channel intermediaries will now be interested in carrying the product. The product may have to be made available in different retail formats because customers of different segments buy differently. Therefore

Matching text:

decision as to which of the segments it will attempt to serve. Some pioneers try to serve the whole market with one or a few standard products even when segments have clearly emerged. This is somehow a mistake. Focused competitors will emerge, which will target specific segments and take away market share from each of the Black Ice Software LLC Demo version 334 segments. Most of the pioneers lose their first mover advantage by their attempt to indiscriminately serve all the segments as they did in the introduction stage. The pioneer should select a few lucrative segments and the target those segments with separate offerings for each of them. Distribution strategy: - Distribution will be widened to serve the new segments but channel intermediaries will now be interested in carrying the product. The product may have to be made available in different retail formats because customers of different segments buy differently. Therefore,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

99/151	SUBMITTED TEXT	17 WORDS	100% MATCHING TEXT	17 WORDS

Submitted text:

product may have to be made available in company owned retail store, departmental store, and a discount store simultaneously.

Matching text:

product may have to be made available in company owned retail store, departmental store and a discount store simultaneously. 12.6

W http://www.distanceeducationju.in/pdf/mcom2.pdf

100/151	SUBMITTED TEXT	25 WORDS	100% MATCHING TEXT	25 WORDS
The market does not grow in this stage. The company should hold on to profit and market share rather than embark on costly competitive challenges.			the market does not grow in this stage, the company should hold on to profit and market share rather than embark on costly competitive challenges.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

101/151	SUBMITTED TEXT	149 WORDS	96% MATCHING TEXT	149 WORDS
company can gain sales only at the expense of competition, strong challenges are resisted by competitors and can lead to costly promotional price war. Brand objective now focuses on maintaining brand loyalty and stimulating repeat purchases. For all but the brand leader, competition may erode prices and profit margins. In this stage companies are tempted to engage in costly promotional price wars to wean away market share from competitors. But such victories are ephemeral. Most companies are not able to effect permanent shifts in market shares with promotional pricing. Therefore instead of trying to match promotional pricing schemes of competitors, the company should focus on strengthening its brand by differentiating its offering. In the maturity stage companies should realize that they cannot grow at the rate at which they did in the growth stage. Companies target unrealistically high growth rates, which is largely a hangover from their growth stage times. Such targets set the companies on the pernicious path of promotional pricing.			company can gain sales only at the expense of competition, strong challenges are resisted by competitors and can lead to costly promotional price war. Brand objective now focuses on maintaining brand loyalty and stimulating repeat purchases. For all but the brand leader, competition may erode prices and profit margins. In this stage companies are tempted to engage in costly promotional price wars to wean away market share from competitors. But such victories are ephemeral. Most Black Ice Software LLC Demo version 335 companies are not able to affect permanent shifts in market shares with promotional pricing. Therefore, instead of trying to match promotional pricing schemes of competitors, the company should focus on strengthening its brand by differentiating its offerings. In the maturity stage companies should realize that they cannot grow at the rate at which they did in the growth stage. Companies target unrealistically high growth rates, which is largely a hangover from their growth stage times. Such targets set the companies on the pernicious path of promotional pricing.	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

102/151	SUBMITTED TEXT	67 WORDS	100% MATCHING TEXT	67 WORDS
Companies in the growth stage should realize that the maturity stage will last for a long time and should put in place a low cost manufacturing and marketing infrastructure so that they are able to earn a descent return in the long maturity period. The company should target small, incremental growth rates which they should achieve by shifting customer preferences to their brands permanently by differentiating and strengthening their brands.			Companies in the growth stage should realize that the maturity stage will last for a long time and should put in place a low-cost manufacturing and marketing infrastructure so that they are able to earn a descent return in the long maturity period. The company should target small, incremental growth rates which they should achieve by shifting customer preferences to their brands permanently by differentiating and strengthening their brands. 12.7	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

103/151	SUBMITTED TEXT	43 WORDS	94%	MATCHING TEXT	43 WORDS

Decline A company should anticipate the impending decline in sales. The biggest hurdle in adoption of suitable strategies for the decline stage is marketers' false belief that it is not coming or at least will not come so soon. The company should analyze changing customer requirements	Decline Phase A company should anticipate the impending decline in sales. The biggest hurdle in adoption of suitable strategies for the decline stage is marketer's false belief that it is not coming or at least will not come so soon. The company should analyze changing customer requirements

W http://www.distanceeducationju.in/pdf/mcom2.pdf

104/151	SUBMITTED TEXT	96 WORDS	80%	MATCHING TEXT	96 WORDS

and acceptability of emerging substitute solutions to gauge the speed at which its product will become redundant. Sometimes the customers' requirements may have changed dramatically or the emerging solution may be very effective, so the company will have to make plans to exit the market immediately. Companies which make this assessment early will get a better value for the business when it tries to sell it, as the market may not yet be aware of the impending decline. At other times the customers' requirement may be changing gradually and/or the emerging solution may have bugs and may be slow to be accepted, therefore	and acceptability of emerging substitute solutions to gauge the speed at which its product will become redundant. Sometimes the customers requirements may have changed dramatically or the emerging solution may be very effective, so the company will have to make plans Black Ice Software LLC Demo version 336 to exit the market immediately. Companies which make this assessment early will get a better value for the business when it tries to sell it, as the market may not be yet be aware of the impending decline. At times the customer requirement may be changing gradually and the emerging solution may have bugs and may also be slow to be accepted, therefore

W http://www.distanceeducationju.in/pdf/mcom2.pdf

105/151	SUBMITTED TEXT	50 WORDS	98%	MATCHING TEXT	50 WORDS

can plan a more gradual withdrawal. In general, failing sales may induce companies to raise prices and slash marketing expenditure. Brand loyalty will be exploited to create profits. Product development will be halted, product line depth will be reduced, and promotional expenditure will be reduced. Only the most profitable distribution outlets will be retained. 8.8.3	can plan a more gradual withdrawal. In general terms, failing sales may induce companies to raise prices and slash marketing expenditure. Brand loyalty will be exploited to create profits. Product development will be halted, product line depth will be reduced and the promotional expenditure will be reduced. Only the most profitable distribution outlets will be retained. 12.8

W http://www.distanceeducationju.in/pdf/mcom2.pdf

106/151	SUBMITTED TEXT	85 WORDS	85%	MATCHING TEXT	85 WORDS

Uses of PLC z PLC emphasizes the need for product planning. There is need to replace old products with new ones. There is a need to analyze the balance of products. A company with all its products in the mature stage may be generating profit today but as the products enter decline stage, profits may fall. A nicely balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage, and there should be reasonable prospect of new product launches in

USES OF PRODUCT LIFE CYCLE PLC emphasizes the need for product planning. There is a need to replace the old product with new ones. There is a need to analyze the balance of product. A company with all of its product in the mature stage may be generating profit today but as the product enter the decline stage, profits may fall. A nice balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage and there should be reasonable prospect of new product launches in

W http://www.distanceeducationju.in/pdf/mcom2.pdf

107/151	SUBMITTED TEXT	14 WORDS	89%	MATCHING TEXT	14 WORDS

near future. Products should be viewed as interrelated set of profit bearing assets that

near future. Product should be viewed as interrelated set of profit bearing assets that

W http://www.distanceeducationju.in/pdf/mcom2.pdf

108/151	SUBMITTED TEXT	45 WORDS	95%	MATCHING TEXT	45 WORDS

may be in very powerful position early in the PLC. It may charge a very high price during this period of monopoly supply. But unless the product is patented, competition will enter during growth phase and make it difficult for the pioneer to charge high prices. Customers

may be in very powerful position early in the PLC. It may charge a very high price during this period of monopoly supply. But unless the product is patented, competition will enter during the growth phase and make it difficult for the pioneer to charge high price. Customers

W http://www.distanceeducationju.in/pdf/mcom2.pdf

109/151	SUBMITTED TEXT	44 WORDS	85%	MATCHING TEXT	44 WORDS

high price when they could afford not to. A company which understands concept of PLC will realize and estimate the eventual entry of competitors, and will take that into account when they shape their early strategies of market entry. In fact, smart pioneers will price the

high price when they could afford not to. Black Ice Software LLC Demo version 338 A company that understand the concept of PLC will realize and estimate the eventual entry of competitors and will take that into account when they shape their early strategies of market entry. In fact, smart pioneers will price the

W http://www.distanceeducationju.in/pdf/mcom2.pdf

110/151	SUBMITTED TEXT	24 WORDS	91%	MATCHING TEXT	24 WORDS

the market attractive enough to enter it. If pioneers decide to be content with low margins, they can keep off competitors, at least those

the market attractive enough to enter it. If pioneer decide to be content with low margins, they can keep off the competitors, at least those

W http://www.distanceeducationju.in/pdf/mcom2.pdf

111/151	SUBMITTED TEXT	41 WORDS	96%	MATCHING TEXT	41 WORDS

pursue markets purely for profits and do not have strategy and preference for entering new markets. Genuinely interested competitors will still enter the market but they will be there for the long haul and their strategies and moves will be more predictable and manageable.

pursue market purely for profits and do not have strategy and preference for entering new markets. Genuinely interested competitors will still enter the market but they will be there for the long haul and their strategies and moves will be more predictable and manageable.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

112/151	SUBMITTED TEXT	22 WORDS	93%	MATCHING TEXT	22 WORDS

Companies have to face the fact that products need to be terminated and new products developed to replace them. Without this sequence

Companies have to face the fact that products need to be terminated and new products developed to replaced them. Without this sequence

W http://www.distanceeducationju.in/pdf/mcom2.pdf

113/151	SUBMITTED TEXT	14 WORDS	96%	MATCHING TEXT	14 WORDS

company may find itself with a group of products all in decline stage of

company may find itself with a group of products all in the decline stage of

W http://www.distanceeducationju.in/pdf/mcom2.pdf

114/151	SUBMITTED TEXT	20 WORDS	93%	MATCHING TEXT	20 WORDS

PLC. z PLC reminds managers that growth will end and suggests the need for caution when planning investment in new production facilities.

PLC. PLC reminds managers that growth will end and suggests the need for caution when planning investment in new production facilities. 12.10

W http://www.distanceeducationju.in/pdf/mcom2.pdf

115/151	SUBMITTED TEXT 335 WORDS	98% MATCHING TEXT 335 WORDS

SUBMITTED TEXT — 335 WORDS

Price Changes Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic. z Circumstances under which price can be raised Marketing research may reveal that customers place a higher value on products than is reflected in its price. A price increase is not likely to turn away customers as they will still find the company's offer attractive. But if competitors hold on to the old price levels and the offerings are similar, customers are likely to defect. In most industries, the offerings of major competitors have become similar, and it may be suicidal for a company to raise prices if competitors do no follow suit. In most industries customers are getting good value and the industries can become more profitable if the companies raise prices. But because of unpredictable competitor reactions, no company takes the initiative to raise prices. One alternative is to raise prices and introduce some differentiation in the offering simultaneously so that the customer feels that he is paying the extra amount for some added value. The customer essentially does not mind paying the high price because he is getting commensurate value, but is perturbed that other companies are offering the same value at lesser price. The slightly differentiated offering will put him at ease. Costs of doing business may have gone up. If the escalating costs are affecting all competitors, most of them are likely to follow suit when a company takes the initiative to raise prices. But if only a particular company has been affected, it cannot raise prices as competitors will hold on to their prices and lure away the company's customers. There is excess demand. If a company raises price and competitors do not follow suit, the company may still get enough

98% MATCHING TEXT — 335 WORDS

PRICE CHANGES Marketers need to be aware of the need to change even long-standing prices. Price is a strategic tool with which competitors have to be overwhelmed, and higher profits earned. No price, howsoever diligently set, is sacrosanct. Managers need to know when and how to raise or lower prices and whether or not to react to competitors' price moves. Sometimes external factors may force such moves and at other times price changes are deliberate moves to gain competitive advantages. Price is essentially dynamic. 14.5.1 Circumstances under which price can be raised Marketing research may reveal that customers place a higher value on products than Black Ice Software LLC Demo version 389 is reflected in its price. A price increase is not likely to turn away customers as they will still find the company's offer attractive. But if competitors hold on to the old price levels and the offerings are similar, customers are likely to defect. In most industries, the offerings of major competitors have become similar, and it may be suicidal for a company to raise prices if competitors do no follow suit. In most industries customers are getting good value and the industries can become more profitable if the companies raise prices. But because of unpredictable competitor reactions, no company takes the initiative to raise prices. One altemative is to raise prices and introduce some differentiation in the offering simultaneously so that the customer feels that he is paying the extra amount for some added value. The customer essentially does not mind paying the high price because he is getting commensurate value, but is perturbed that other companies are offering the same value at lesser price. The slightly differentiated offering will put him at ease. Costs of doing business may have gone up. If the escalating costs are affecting all competitors, most of them are likely to follow suit when a company takes the initiative to raise prices. But if only a particular company has been affected, it cannot raise prices as competitors will hold on to their prices and lure away the company's customers. There is excess demand. If a company raises price and competitors do not follow suit, the company may-still get enough

W http://www.distanceeducationju.in/pdf/mcom2.pdf

116/151	SUBMITTED TEXT	232 WORDS	96% MATCHING TEXT	232 WORDS

SUBMITTED TEXT

from the increased pool of customers to end up with higher profits. But most competitors are likely to raise their prices to enhance their profitability. If a few competitors hold on to the old prices, it may actually work to their disadvantage. Customers will take the price charged by the major and majority of companies as reasonable and will attribute the low prices of the few companies to inadequate quality. A company's objective may have become to harvest the business i.e. to increase margins at the cost of survival. It does not mind losing some customers but charges higher prices to whoever is willing to buy its products. Competitors should not raise their prices in response to such a company's raising its prices. But if competitors are oblivious of the company's intentions and raise their prices, the company will be able to retain its customers and really earn a windfall. z Circumstances under which prices may be cut Marketing research discovers that the price is higher compared to value customers place on the product. If the company does not reduce its price, the customers would stop buying. If the scenario is true for the whole industry, all the competitors will follow the initiator, and market shares will stabilize somewhere close to where it was before the price cut. Costs of doing business may have come down. The company wants to pass on some of the benefits of the reduced costs to customers to earn their goodwill. It will help the

MATCHING TEXT

from the increased pool of customers to end up with higher profits. But most competitors are likely to raise their prices to enhance their profitability. If a few competitors hold on to the old prices, it may actually work to their disadvantage. Customers will take the price charged by the largest company or the majority of companies as reasonable and will attribute the low prices of the few companies to inadequate quality. A company's objective may have become to harvest the business i.e. to increase margins at the cost of survival. It does not mind losing some customers but charges higher prices to whoever is willing to buy its products. Competitors should not raise their prices in response to such a company's raising its prices. But if competitors are oblivious of the company's intentions and raise their prices, the company will be able to retain its customers and really earn a windfall. Black Ice Software LLC Demo version 390 14.5.2 Circumstances under which prices may be cut Marketing research discovers that the price is higher compared to value customers place on the product. If the company does not reduce its price, the customers would stop buying. If the scenario is true for the whole industry, all the competitors will follow the initiator, and market shares will stabilize somewhere close to where it was before the price cut. Costs of doing business may have come down. The company wants to pass on some of the benefits of the reduced costs to customers to earn their goodwill. It will help the

W http://www.distanceeducationju.in/pdf/mcom2.pdf

117/151	SUBMITTED TEXT	213 WORDS	100% MATCHING TEXT	213 WORDS

Submitted text:

company immensely if such a move is well-publicized. Competitors may follow suit but the company which does it first is likely to register maximum goodwill among customers. The company has excess capacity and reduces its price to increase volumes so that its per unit cost goes down. Therefore the low price is compensated to some extent by falling costs if sales increase in response to the low price. If a company operating at full capacity cuts its price in response, the cut will come straight from profits as it does not get any reduction in cost. Such a company will be reluctant to cut price and will lose customers to the company with larger capacity. Companies with larger capacities can get advantage over smaller companies by reducing their prices systematically. But if there is industry overcapacity i.e. every company has excess capacity, competitors are likely to follow suit if a company initiates a price cut. Sales do not increase for any company, but profits fall further for every company. The company wants to increase its market share. It cuts price and if it is lucky not to have its competitors matching the cut, it may be able to increase its market share. But this method to increase market share is fraught with danger. It may lead to spiraling price cuts in the industry with reduced profits for every company.

Matching text:

company immensely if such a move is well-publicized. Competitors may follow suit but the company which does it first is likely to register maximum goodwill among customers. The company has excess capacity and reduces its price to increase volumes so that its per unit cost goes down. Therefore the low price is compensated to some extent by falling costs if sales increase in response to the low price. If a company operating at full capacity cuts its price in response, the cut will come straight from profits as it does not get any reduction in cost. Such a company will be reluctant to cut price and will lose customers to the company with larger capacity. Companies with larger capacities can get advantage over smaller companies by reducing their prices systematically. But if there is industry overcapacity i.e. every company has excess capacity, competitors are likely to follow suit if a company initiates a price cut. Sales do not increase for any company, but profits fall further for every company. The company wants to increase its market share. It cuts price and if it is lucky not to have its competitors matching the cut, it may be able to increase its market share. But this method to increase market share is fraught with danger. It may lead to spiraling price cuts in the industry with reduced profits for every company. 14.5.3

W http://www.distanceeducationju.in/pdf/mcom2.pdf

118/151	SUBMITTED TEXT	24 WORDS	100% MATCHING TEXT	24 WORDS

Submitted text:

Proactive price cut A company cuts price to preempt competitive entry into a market. It incurs short term profit sacrifices but immediately reduces the attractiveness

Matching text:

Proactive Price Cut A company cuts price to preempt competitive entry into a market. It incurs short term profit sacrifices but immediately reduces the attractiveness

W http://www.distanceeducationju.in/pdf/mcom2.pdf

119/151	SUBMITTED TEXT	216 WORDS	97%	MATCHING TEXT	216 WORDS

market to the potential entrant. The competitors do not consider the market attractive enough to commit resources in it. The move reduces the risk of customer annoyance if prices are reduced only after competition entry. 8.12.2 Tactics of Price Change (i) The company increases or decreases price by the full amount in one go. When a company raises prices substantially at one instance, it avoids prolonging the pain of a price increase over a long period but raises the visibility of price rise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offering they may never return. (ii) When a company reduces prices in one go, the decline in price is noticed by customers and they may now find the new attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regards to attracting customers. A big price reduction stirs the market, customers take notice and sales increase. Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins. There is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a avoidable hit in its revenues

market to the potential entrant. The competitors do not consider the market attractive enough to commit Black Ice Software LLC Demo version it. The move reduces the risk of customer annoyance if prices are reduced only after competition entry. 14.5.4 Tactics of price change (i) The company increases or decreases price by the full amount in one go. When a company raises prices substantially at one instance, it avoids prolongjng the pain of a price increase over a long period but raises the visibility of price rise to customers. Some customers may find the price hike too steep and decide not to buy. And once they move to a competitor's offering they may never return. (ii) When a company reduces prices in one go, the decline in price is noticed by customers and they may now find the new price level attractive and may purchase almost immediately. In fact price reduction below certain threshold level is not noticed by customers and is a wasted move with regard to attracting customers. A big price reduction stirs the market, customers take notice and sales increase. Such price reductions should be heavily promoted. But such a move causes an immediate impact on margins. There is also the fear that such a steep reduction might not have been needed and that a lesser reduction in price would have resulted in the same customer response. The company takes a avoidable hit in its revenues

W http://www.distanceeducationju.in/pdf/mcom2.pdf

120/151	SUBMITTED TEXT	141 WORDS	99%	MATCHING TEXT	141 WORDS

unwittingly reduces prices more than that was required to create a stir in the market. (iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. This image may be harmful in the long run. (iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear. Small cuts are made till desired effect on sales is achieved. The company is able to avoid unnecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also 182

unwittingly reduces prices more than that was required to create a stir in the market. (iii) A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently runs the risk of being charged with always rising its prices. This image may be harmful in the long run. (iv) Staged price reductions is done when the amount necessary to stimulate sales is unclear, Small cuts are made till desired effect on sales is achieved. The company is able to avoid urmecessary reductions in price. But some customers may not take notice and continue to assume that the company is still charging its original price and will not switch over from their current suppliers. Smaller price reductions also

W http://www.distanceeducationju.in/pdf/mcom2.pdf

121/151 **SUBMITTED TEXT** 371 WORDS **99% MATCHING TEXT** 371 WORDS

cannot be effectively advertised. And when the company continues the process for too long, customers may postpone their purchases and wait for the next cut in price. (v) An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest of grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances. (vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier (vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay higher prices also pay the decreased price. But under this method, the company offers discounts to some customers to get their business but charges full price to others. There is fear of customers' reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prices become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer. (viii) A company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services, the customers may not value them or may not even want them. And over a period

cannot be effectively advertised. And when the company continues the process for too long, customers may postpone their purchases and wait for the next cut in price. Black Ice Software LLC Demo version 392 (v) An escalator clause in a contract (for instance, construction) allows the supplier to stipulate price increase in line with a specified index, like increase in material cost. Customers are normally wary of such clauses and fear that the supplier will increase prices on the flimsiest of grounds. Suppliers should ensure customers that the price hike would take place only under strictly specified and verifiable circumstances. (vi) Price unbundling allows each element in the offering to be separately priced and sold in such a way that total price is raised. Customers can avoid buying the full product if they require only a few elements of it. It helps customers as they can select different suppliers for different elements. They do not feel dependent totally on one supplier. (vii) The company maintains the list price but offers required discounts to customers. When the list price is lowered, customers who otherwise would have been willing to pay higher prices also pay the decreased price. But under this method, the company offers discounts to some customers to get their business but charges full price to others. There is fear of customers' reprisal if the customers become aware of the discriminatory pricing of the company especially if the differences between what customers have paid are big. A company can lower or completely withdraw cash and quantity discounts when the demand is heavy. But when such discounts are offered indiscriminately and for all customers and for all periods, customers lose faith in the price list of the company. Customers distrust such companies as prices become the function of how hard a customer can bargain. A company should not allow the sanctity of its list price to be withered away under the pretext of having to do business under very competitive conditions. It will be better to reduce the list price if discount will be ultimately given to every customer. (viii) A company can decrease price without a direct fall in price. Price bundling can lower prices. For instance, a company sells television with repair warranty. The drawback is that while the company incurs real costs in fulfillment of additional responsibilities or services. the customers may not value them or may not even want them. And over a period

W http://www.distanceeducationju.in/pdf/mcom2.pdf

122/151	SUBMITTED TEXT	224 WORDS	96% MATCHING TEXT	224 WORDS

time customers begin to expect these extra services as normal part of the offering and do not acknowledge any favors being granted to them. A possible solution is to offer customer an option of taking the bundled product or a small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service. (ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. The first move makes a serious dent in the profits and the second results in the virtual reduction of list price. (x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prices. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though creating a low price fighter brand will cost the company, it will be worth protecting its premium brands.

time customers begin to expect these extra services as normal part of the offering and do-not acknowledge any favors being Hinted to them. A possible solution is to offer customer'an option of taking the bundled product or a Black Ice Software LLC Demo version 393 small discount. The discount should be lower than the monetary value of the service being bundled. This option will act as a reminder to customers that the company is providing enhanced value to them. And it can be a genuine option for customers who do not want the added service. (ix) Discount terms can be made more attractive by increasing the percentage or lowering qualifying levels. 'The first move makes a serious dent in the profits and the second results in the virtual reduction oflist price. (x) Introduce a low price fighter brand to counter a cut price competitor while keeping the price premiumness of the main brand intact. This is normally a good strategy to avoid lowering the prices of a company's premium brands. Brand equity developed over decades and centuries can get eroded if premium brands are pressed to engage in battles with low price brands. The premium brands win by cutting prices as customers lap up such a premium brand at such affordable prices. But the brand is dead for ever. It becomes the mediocre brand it vanquished. Though creating a low price fighter brand will cost the company, it will be worth protecting its premium brands. 14.5.5

W http://www.distanceeducationju.in/pdf/mcom2.pdf

123/151	SUBMITTED TEXT	120 WORDS	95% MATCHING TEXT	120 WORDS

A price rise that no competitor follows may turn customers away to competitors' offerings. A price cut that is met by the competition will not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price hike is matched by competitors but its price reduction is not matched by competitors. z A company's reactions to another company's price moves is dependent on its strategic objectives. It is likely to follow price increase if its strategic objective is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding and will ignore price cuts

A price rise that no competitor follows may turn customers away to competitors' offerings. A price cut that is met by the competition will not result in increase in sales of the initiator but may reduce industry profitability. A company that initiates prices changes will achieve its purpose if its price hike is matched by competitors but its price reduction is not matched by competitors. Black Ice Software LLC Demo version 394 • A company's reaction to another company's price moves is dependent on its strategic objectives. It is likely to follow price increase if its strategic objective is to hold or harvest. If it is intent on building market share, it will resist following price increase. Conversely it will follow price cuts if it is building or holding and will ignore price cuts

W http://www.distanceeducationju.in/pdf/mcom2.pdf

124/151	SUBMITTED TEXT 38 WORDS	96% MATCHING TEXT 38 WORDS
	is harvesting. Companies should try to gauge their competitors' strategic objectives for their product. By observing pricing, and promotional behavior, talking to distributors and even hiring their employees estimates of whether competitor products are being built, held or harvested can be made	is harvesting. Companies should try to gauge their competitors' strategic objectives for their product. By observing pricing, and promotional behaviour, talking to distributors and even hiring their employees estimates of whether competitor products are being built, held or harvested can be made. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

125/151	SUBMITTED TEXT 66 WORDS	95% MATCHING TEXT 66 WORDS
	price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objective of a firm. z If competition has excess capacity, a price cut will be matched. z A price rise is likely to be followed if competition is faced with excess demand. Competitor reaction can also be judged by looking at their price reactions to previous price changes. 8.12.4	price is raised in response to rise in inflation, competition is likely to follow than if price is raised because of harvest objective of a firm. • If competition has excess capacity, a price cut will be matched. • A price rise is likely to be followed if competition is faced with excess demand. Competitor reaction can also be judged by looking at their price reactions to previous price changes. 14.6

W http://www.distanceeducationju.in/pdf/mcom2.pdf

126/151	SUBMITTED TEXT	250 WORDS	98% MATCHING TEXT	250 WORDS

to Competitors' Price Changes When to follow a competitor's price moves Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is profit margin rather than sales/market share gain. Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufacturers or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/market share loss. In build objective price fall may exceed initial competitive moves. When to ignore

to changes by competitors. When to Follow a Competitor's Price Moves Competitive price increases are more likely to be followed when they are due to general rising cost levels or industry wide excess demand, or when customers are relatively price insensitive, which means that followers will not gain much by not increasing the price. When a brand image is consistent with high prices a company will follow a competitor's price rise as to do so would be consistent with the brand's positioning strategy. A price rise is more likely to be followed if a company is pursuing hold or harvest objective because company's aim is, profit margin rather than sales/ market share gain. Black Ice Software LLC Demo version 395 Price cuts are likely to be followed when they are stimulated by general falling costs or excess supply. Falling costs allow all companies to cut prices while maintaining margins and excess supply means that a company is unlikely to allow a rival to make sales gain at their expense. Price cuts will also be followed in price sensitive markets since allowing one company to cut price without retaliation would mean large sales gains for price cutter. Some companies position themselves as low price manufacturers or retail outlets. They would be less likely to allow a price reduction by a competitors to get unchallenged, for to do so would be incompatible with their brand image. Price cuts are likely to be followed when the company has build or hold objective. An aggressive price move by a competitor would be followed to prevent sales/market share loss. In build objective price fall may exceed initial competitive moves. When to Ignore

W http://www.distanceeducationju.in/pdf/mcom2.pdf

127/151	SUBMITTED TEXT	61 WORDS	99% MATCHING TEXT	61 WORDS

to a competitor's price move Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing

to Ignore a Competitor's Price Move Price rise are likely to be ignored when costs are stable or falling, as there are no cost pressures. In situations of excess supply, a price rise will make the initiator less competitive, especially if customers are price sensitive and price rise can go unchallenged. Companies occupying low price position will find increasing price due to a competitor's increasing,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

128/151	SUBMITTED TEXT	11 WORDS	100% MATCHING TEXT	11 WORDS
	price incompatible with their brand image. Companies pursuing build objectives		price incompatible with their brand image. Companies pursuing build objectives	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

129/151	SUBMITTED TEXT	30 WORDS	100% MATCHING TEXT	30 WORDS
	Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts,		Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts,	

W http://www.distanceeducationju.in/pdf/mcom2.pdf

130/151	SUBMITTED TEXT	430 WORDS	97% MATCHING TEXT	430 WORDS

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 8.12.5 Tactics of Reaction Price change can take place slowly or quickly. A quick price increase is likely when there is an urgent need to improve profit margins. Slow reaction is desirable when an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly. The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing everything to hold prices. There should be quick reaction to competitor's price decrease if there is erosion of market share. Reaction is slow when a company has loyal customer base willing to accept higher prices for a period so long as they can rely on price parity over the longer run. 8.12.6 Price Wars A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor. Of all the variables of a company's marketing strategy, it takes the least time for executives to make changes in their pricing strategy. However, such changes also trigger several unexpected and mostly unwanted repercussions from competitors, customers and also within the organization. Change in pricing strategy usually means initiating a price cut. Such a price cut invariably triggers a chain reaction in the industry, with competitors usually trying to outdo each other in cutting prices, leading to a decline in the overall profits of every player in the industry. Price then becomes the main competitive tool which eventually undermines the investment that the company may have undertaken to develop any differential advantage, for instance, superior quality, better delivery systems or superior technology. It also makes customers expect and want more price reductions, affecting the industry's competitiveness irreparably. Companies in such situations must decide their response strategies. When faced with a competitor who has reduced prices, most companies choose to retaliate with price cuts. It is however important to explore other possibilities before succumbing to the inevitable price war. The company should first analyze the situation. It should evaluate customer issues such as price sensitivity of the target segment, competitor issues such as their cost structures, intentions, competencies, and company related issues, i.e. its own cost structures, competencies, vision before initiating any action whatsoever. It should also analyze the impact of the present price cut on suppliers, government etc. Waiting for some time to test the real-time effect of the price cut initiation (instead of merely analyzing the situation) may also be a sensible idea for some companies. Thereafter, the company has several

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 14.7 TACTICS OF REACTION Price change can take place slowly or quickly. A quick price increase is likely then Black Ice Software LLC Demo version 397 rhere is an urgent need to improve profit margins. Slow reaction is desirable when-an image of being the customer's friend is being sought. Some companies never initiate price increase and follow competitor's increase slowly.' The key to this tactic is timing the response. The optimum period is found by experience, but in the meantime, sales people should tell the customers that the company is doing everything to hold prices. There should be a quick reaction to competitor's price decrease if there is an erosion of market share. Reaction is slow when a company has loyal customer base willing to accept higher prices for a period so long as they can rely on price parity over the longer run. 14.8 PRICE WARS A company can fight a price war without eroding its brand equity and profits. Besides retaliatory price cutting, there are other ways of reacting to price cuts initiated by a competitor. Of all the variables of a company's marketing strategy, it takes the least time for executives to make changes in their pricing strategy. However, such changes also trigger several unexpected and mostly unwanted repercussions from competitors, customers and also within the organization. Change in pricing strategy usually means initiating a price cut. Such a price cut invariably triggers a chain reaction in the industry, with competitors usually trying to outdo each other in cutting prices, leading to a decline in the overall profits of every player in the industry. Price then becomes the main competitive tool which eventually undermines the investment that the company may have undertaken to develop any differential advantage, for instance, superior quality, better delivery systems or superior technology. It also makes customers expect and want more price reductions, affecting the industry's competitiveness irreparably. Companies in such situations must decide their response strategies. When faced with a competitor who has reduced prices, most companies choose to retaliate with price cuts. It is however important to explore other possibilities before succumbing to the inevitable price war. The company should first analyze the situation. It should evaluate customer issues such as price sensitivity of the target segment, competitor issues such as their cost structures, intentions, competencies, and company related issues, i.e. its own cost Black Ice Software LLC Demo version 398 structures, competencies, vision before initiating any action whatsoever. It should also analyze the impact of the present price cut on suppliers, government etc. Waiting for same time to test the real time effect of the price cut initiation (instead of merely analyzing the situation) may

options other than merely decreasing its price levels in retaliation.

also be a sensible idea for some companies. Thereafter, the company has several options other than merely decreasing its price levels in retaliation. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

131/151	SUBMITTED TEXT	42 WORDS	100% MATCHING TEXT	42 WORDS

The company may choose to reveal its strategic intentions to its competitors without responding to the price cut in any other manner. For instance, it may reveal its low cost structure to competitors that could allow it to sustain the price war longer,

The company may choose to reveal its strategic intentions to its competitors without responding to the price cut in any other manner. For instance, it may reveal its low cost structure to competitors that could allow it to sustain the price war longer,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

132/151	SUBMITTED TEXT	62 WORDS	100% MATCHING TEXT	62 WORDS

It may also let it be known to competitors that it does not intend to compete on the basis of price in this market. Maybe the firm could alert the regulators indirectly against such predatory moves of the competitor. The basic intention of this move is to scare the competitor, or to let it know that it would eventually lose out in the race.

It may also let it be known to competitors that it does not intend to compete on the basis of price in this market. Maybe the firm could alert the regulators indirectly against such predatory moves of the competitor. The basic intention of this move is to scare the competitor, or to let it know that it would eventually lose out in the race. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

133/151	SUBMITTED TEXT	105 WORDS	100% MATCHING TEXT	105 WORDS

The company may choose to compete strictly on non-price based measures. If a competitor has reduced prices, and perhaps others are also willing to do so, the company may either decide to persist with existing price levels or even increase prices. The main purpose is to prevent damage to the brand image in the market (especially if the brand carries a premium image among the target audience). The company would also have to emphasize high quality or value-added features in its communications or provide more value or denigrate the attempt of competitors to shift the focus of customers away from quality to price. Perhaps they could also try to convince customers

The company may choose to compete strictly on non-price based measures. If a competitor has reduced prices, and perhaps others are also willing to do so, the company may either decide to persist with existing price levels or even increase prices. The main purpose is to prevent damage to the brand image in the market (especially if the brand carries a premium image among the target audience). The company would also have to emphasize high quality or value-added features in its communications or provide more value or denigrate the attempt of competitors to shift the focus of customers away from quality to price. Perhaps they could also try to convince-customers

W http://www.distanceeducationju.in/pdf/mcom2.pdf

134/151	SUBMITTED TEXT	135 WORDS	95% MATCHING TEXT	135 WORDS

SUBMITTED TEXT	MATCHING TEXT
dangers of buying lower priced products, or warn them against future competitive moves (such as the dangers of monopolistic tendencies if other competitors were driven out of the market because of predatory pricing). z It is important to remember that there is life after price wars for brands. The brand should strengthen itself by providing more features and benefits and advertising more stridently. A stronger brand is the ultimate deterrence against price slashing competitors. But if brands reduce prices indiscriminately during the price war as a retaliatory measure, it damages the brand image for good. z The company may selectively respond to such price cuts to avoid an all out war. For instance, the company may give quantity discounts. It may engage in value pricing i.e. charge a higher price from customers who want more features, and lesser price from those who want a stripped down	dangers of buying lower priced products, or warn them against future competitive moves (such as the dangers of monopolistic tendencies if other competitors were driven out of the market because of predatory pricing). • It is important to remember that there is life after price wars for brands. The brand should strengthen itself by providing more features and benefits and advertising more stridently. A stronger brand is the ultimate deterrence against price slashing competitors. But if brands reduce prices indiscriminately Black Ice Software LLC Demo version 399 during the price war as a retaliatory measure, it damages the brand image for good. • The company may selectively respond to such price cuts to avoid an all out war. For instance, the company may give quantity discounts. It may engage in value pricing, i.e. charge' a higher price from customers who want more features, and lesser price from those who want a stripped down

W http://www.distanceeducationju.in/pdf/mcom2.pdf

135/151	SUBMITTED TEXT	60 WORDS	97% MATCHING TEXT	60 WORDS

SUBMITTED TEXT	MATCHING TEXT
the product. It may offer peak services at usual prices, and cut down prices at non-peak hours to stimulate demand. This method allows responding to the price cut in a manner that prevents damage to the brand's reputation. It also allows adequate time to the company to plan further moves and sense the impact of the competitor's price cuts with less risks. z The	the product. It may offer peak services at usual prices, and cut down prices at non-peak hours to stimulate demand. This method allows responding to the price cut in a manner that prevents damage to the brand's reputation. It also allows adequate time to the company to plan further moves and sense the impact of the competitor's price cuts with less risks. 14.8.1 The

W http://www.distanceeducationju.in/pdf/mcom2.pdf

136/151	SUBMITTED TEXT	140 WORDS	99% MATCHING TEXT	140 WORDS

SUBMITTED TEXT	MATCHING TEXT
The last option for the company is to fight the price war. The company has to resort to this option if its stakes in the industry are high i.e. the business is strategically important for the company. However, the ability to fight out the war depends on the financial strength of the company. However, the intensity and the time for which the war would be waged would depend on other players in the industry. Stronger players with larger stakes would stretch the war for a longer time. Therefore, the industry dynamics should be weighed carefully before the company goes whole hog. z If the company cannot fight the price war, and it is foreseen that the war would be fought by other stronger players in the industry, the company should start planning exit strategies. There is no point fighting a battle which one can never expect to win. 8.12.7	The last option for the company is to fight the price war. The- company has to resort to this option if its stakes in the industry are high i.e. the business is strategically important for the company. However, the ability to fight out the war depends on the financial strength of the company. However, the intensity and the time for which the war would be waged would depend on other players in the industry. Stronger players with larger stakes would stretch the war for a longer time. Therefore, the industry dynamics should be weighed carefully before the company goes whole hog, • If the company cannot fight the price war, and it is foreseen that the war would be fought by other stronger players in the industry, the company should start planning exit strategies. There is no point fighting a battle which one can never expect to win. 14.9

W http://www.distanceeducationju.in/pdf/mcom2.pdf

137/151	SUBMITTED TEXT	399 WORDS	98% MATCHING TEXT	399 WORDS

SUBMITTED TEXT

Consumption and Pricing Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly. If a customer pays regularly for the service he is using, he is steadily reminded of the cost he is incurring and is more likely to use the service regularly. When a customer uses a service regularly, he is more likely to discover its benefits and continue using the service. In comparison, if a customer makes an one-time payment, he is enthusiastic in using the service in the beginning, but the interest may wane gradually. And since the customer does not receive the full benefits of the service, he is likely to discontinue using the service. For example if a customer pays membership fees for a health-club monthly, he is reminded of the cost of his membership every month. He will feel the need to get his money's worth throughout the year and will workout more regularly. Since he is benefiting from the membership, he is likely to renew the membership. Companies have not paid attention to the relationship between consumption and pricing policies. Companies believe that if customers do not feel the pain of making payments they will be more liberal in buying the product or the service. Therefore, they mask the cost to the customers by such methods as automatic payroll deductions, bundling specific costs into a single, all-inclusive fees, season tickets etc. But these practices reduce the likelihood of the customer using the product, and a customer who does not use the product is not likely to buy it again. Following guidelines would be helpful. z To build a long-term relationship with customers, it is important that they consume the product that they have bought. The extent to which customers use paid-for products determines whether they will buy the product again or not. This phenomenon is more pronounced in businesses that sell subscription or membership. Health club members who workout four times a week are more likely to renew their memberships than those who work out just once a week. In software business, once customers start using an application, they are more likely to buy its upgrade. In businesses like movie theatres, sports arenas and concert halls, a big part of the revenue comes from customer spending on parking, food and drinks. So if ticket holders do not attend these events, these high margin secondary sales are lost. Finally, consumption is important to any business that relies on satisfaction to generate repeat sales and positive word-of-mouth. For products 188

MATCHING TEXT

CONSUMPTION AND PRICING Consumption of the offering is important to retain customers and to generate positive word of mouth about satisfaction. Pricing methods must be adjusted accordingly. If a customer pays regularly for the service he is using, he is steadily reminded of the cost he is incurring and is more likely to use the service regularly. When a customer uses a service regularly, he is more likely to discover its benefits and continue using the service. In comparison, if a customer makes an one-time payment, he is enthusiastic in using the service in the beginning, but the interest may wane gradually. And since the customer does not receive the full benefits of the service, he is likely to discontinue using the service. For example if a customer pays membership fees for a health-club monthly, he is reminded of the cost of his membership every month. He will feel the need to get his money's worth throughout the year and will workout more regularly. Since he is benefitina from the membership, he is likely to renew the membership. Companies have not paid attention to the relationship between consumption and pricing policies. Companies believe that if customers do not feel the pain of making payments they will be more liberal in buying the product or the service. Therefore, they mask the cost to the customers by such methods as automatic payroll deductions, bundling specific costs into a single, all-inclusive fees, season tickets etc. But these practices Black Ice Software LLC Demo version 383 reduce the likelihood of the customer using the product, and a customer who does not use the product is not likely to buy it again. Following guidelines would be helpful. • To build a long-term relationship with customers, it is important that they consume the product that they have bought. The extent to which customers use paid-for products determines whether they will buy the product again or not. This phenomenon is more pronounced in businesses that sell subscription or membership. Health club members who workout four times a week are more likely to renew their memberships than those who work out just once a week. In software business, once customers start using an application, they are more likely to buy its upgrade. In businesses like movie theatres, sports arenas and concert halis, a big part of the revenue comes from customer spending on parking, food and drinks. So if ticket holders do not attend these events, these high margin secondary sales are lost. Finally, consumption is important to any business that relies on satisfaction to generate repeat sales and positive word-of-mouth. For products

W http://www.distanceeducationju.in/pdf/mcom2.pdf

138/151	SUBMITTED TEXT	74 WORDS	94% MATCHING TEXT	74 WORDS

as diverse as wine, books and electronic gadgets, customers will not purchase again or spread positive word-of-mouth if they do not use the products. z Customers feel compelled to use products that they have paid for to avoid feeling that they have wasted their money. Most customers would use a less effective service or product more when they have paid a higher price, than use a more effective product or service that they have bought for a lower price.

as diverse as wine. books and electronic gadgets, customers will not purchase again or spread positive word-of-mouth if they do not use the products. • Customers reel compelled to use products that they have paid for to avoid feeling that they have wasted their money. Most customers would use a less effective service or product more when they have paid a higher price, than use a more effective product or service that they have bought for a lower price. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

139/151	SUBMITTED TEXT	194 WORDS	97% MATCHING TEXT	194 WORDS

Consumption is driven by perceived cost rather than the actual cost. A $10 cash transaction feels of different magnitude than a $100 cash transaction. But a $10 credit transaction feels similar to one for $100. Customers remember the cost of products better if they pay for them with cash than if they pay with credit cards. They also feel more pressure to consume products if they paid with cash than if they paid with credit card. Season tickets, advance purchases and subscriptions also reduce the pressure to consume. z Payments that occur at or near the time of consumption increases attention to a product's cost, increasing the likelihood of its consumption. But payments made either long before or long after the actual purchase reduce the attention to a product's cost and decreases the likelihood of its being used. Immediacy of payment is critical for the consumption of a paid-for product. Services where customers have an option of paying annually, semiannually, quarterly and monthly, reveal this phenomenon remarkably. It is found that members who make a single annual payment use the service most frequently in the months immediately following payments. But the frequency of usage goes down subsequently, and in the last few months they treat their membership as

Consumption is driven by perceived cost rather than the actual cost. A $10 cash transaction feels of different magnitude than a $100 cash transaction. But a $10 credit transaction feels similar to one for $100. Customers remember the cost of products better if they pay for them with cash than if they pay with credit cards. They also feel more pressure to consume products if they paid with cash than if they paid with credit card. Season tickets, advance purchases and suscriptions also reduce the pressure to consume. Black Ice Software LLC Demo version 384 • Payments that occur at or near the time of consumption increases attention to a product's cost, increasing the likelihood of its consumption. But payments made either long before or long after the actual purchase reduce the attention to a product's cost and decreases the likelihood of its being used. Immediacy of payment is critical for the consumption of a paid- for product. Services where customers have an option of paying annually, semiannually, quarterly and monthly, reveal this phenomenon remarkably. It is found that members who make a single annual payment use the service most frequently in the months immediately following payments. But the frequency of usage goes down subsequently, and in the last few months they treat their membership as

W http://www.distanceeducationju.in/pdf/mcom2.pdf

140/151	SUBMITTED TEXT	41 WORDS	100% MATCHING TEXT	41 WORDS

were for free. Similarly for semiannual and quarterly payments, use of service is highest each time payment is made only to decline steadily until the next payment. For monthly payments the use is more uniform as they are reminded of the cost more frequently.

were for free. Similarly for semiannual and quarterly payments, use of service is highest each time payment is made only to decline steadily until the next payment. For monthly payments the use is more uniform as they are reminded of the cost more frequently. •

W http://www.distanceeducationju.in/pdf/mcom2.pdf

141/151	SUBMITTED TEXT	309 WORDS	99%	MATCHING TEXT	309 WORDS

SUBMITTED TEXT

Companies bundle prices to hide the cost of individual components. Price bundling influences consumption. It is easier to identify and account for the cost of an individual product in an unbundled transaction than within a bundled transaction. The one-to-one relationship between price and benefits in an unbundled transaction makes the cost of that item obvious which makes the customer feel guilty if he does not use the product. In case of season tickets the customer pays one bundled sum for a collection of individual events, making it difficult to allocate costs to any individual performance or game. This reduces the likelihood of its usage. As the number of events or days included in a bundle increases, the chances of attendance in individual events goes down. Managers can run operations more efficiently by anticipating actual demand by looking at the mix of bundled and unbundled purchases or the ratio of current to advance purchases. A manager should expect more no-show rates when there are more bundled or advance purchases. 8.12.9 Price Sensitivity Companies can reduce price sensitivity of customers and have more scope for maneuvering their pricing strategies. Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product. A customer is price sensitive if he is bearing the cost as opposed to a third party. The customer is also less price sensitive if he does not have to make the payments upfront. Allowing customers to pay later may make the customer less fixated on the price. Arranging a loan for the customer will allay the concern of high price. The customer does not mind paying

MATCHING TEXT

Companies bundle prices to hide the cost of individual components. Price bundling influences consumption. It is easier to identify and account for the cost of an individual product in an unbundled transaction than within a bundled transaction. The one-to-one relationship between price and benefits in an unbundled transaction makes the cost of that item obvious which makes the customer feel guilty if he does not use the product. In case of season tickets the customer pays one bundled sum for a collection of individual events, making it difficult to allocate costs to any individual performance or game. This reduces the likelihood of its usage. As the number of events or days included in a bundle increases, the chances of attendance in individual events goes down. Managers can run operations more efficiently by anticipating actual demand by looking at the mix of bundled and unbundled purchases or the ratio of current to advance purchases. A manager should expect more no-show rates when there are more bundled or advance purchases. 14.4 PRICE SENSITIVITY Companies can reduce price sensitivity of customers and have more scope for maneuvering their pricing strategies. Black Ice Software LLC Demo version 385 Price sensitivity of customers will determine the latitude that a company will have in increasing its price. A company should know the price sensitivity of its customers and the factors affecting it. In certain situations a company may be able to explore opportunities to reduce price sensitivity of its customers if it develops a keen understanding of his motivations in making the purchase, the purpose for which he uses the product and the very nature of the product. A customer is price sensitive if he is bearing the cost as opposed to a third party. The customer is also less price sensitive if he does not have to make the payments upfront. Allowing customers to pay later may make the customer less fixated on the price. Arranging a loan for the customer will allay the concern of high price. The customer does not mind paying

W http://www.distanceeducationju.in/pdf/mcom2.pdf

142/151	SUBMITTED TEXT	612 WORDS	98% MATCHING TEXT	612 WORDS

SUBMITTED TEXT

a slightly higher installment but he might not be willing or able to pay the high initial price. If the payment for some services are being made by insurance companies or come as perks, the customers will not worry about price and seek the best service. Servers providers should seek such businesses and offer premium quality of services. Pharmaceutical companies will have a greater pricing latitude if neither the prescriber nor the patient paid the cost of the medicines, but the price was paid by an insurer. A customer is also price sensitive if the cost of the item represents a substantial percentage of a customer's total expenditure. The choice of the target market becomes very important. In generic terms, a wealthier segment would be less price sensitive and should be targeted. Industrial marketers can target such customers for whom their product will be minor purchase in comparison to the other purchases that they make. If the buyer is not the end user and he sells his end product in a competitive market, price pressure from further down a distribution channel ripples back up through the chain. For instance, one steel producer was able to obtain good margins by selling a component to buyers who then produced specialty items for end users. Buyers of the specialty item were less price sensitive. Selling that same component to buyers who made products for commodity-like markets meant lower realized prices as the end users were more price sensitive. Therefore the company will have to evaluate the price sensitivity of its customer's customers and target such customers whose own customers are less price sensitive. The customer is more likely to be price sensitive if he is able to judge quality without using price as an indicator. A customer's price sensitivity will be more also if the product is one for which it is easy to make comparisons. For instance, it is easier to compare cameras than it is to compare computers. A customer will be more price sensitive if there is limited difference between the performance of products in the category. A company will have to make it difficult for customers to evaluate quality and make comparisons. A company should desist from using purely functional attributes as competitive parameters. In most categories, with some ingenuity, products can be imbued with some sense of style, fashion, color, sensuality and grandeur. Customers will be unable to put a monetary value to these attributes. In hard-to-judge categories such as perfumes, price has little impact because the customers assume that high price and high quality go together. A customer will be price sensitive if he can easily shop around and assess the relative performance and price of alternatives. Advances in information technology will enable customers to increase their awareness of prices and access to alternative options. Price sensitivity of customers is going to increase in a wide range of products and services. It will be dangerous

MATCHING TEXT

a slightly higher installment but he might not be willing or able to pay the high initial price. If the payment for some services are being made by insurance companies or come as perks, the customers will not worry about price and seek the best service. Service providers should seek such businesses and offer premium quality of services. Pharmaceutical companies will have a greater pricing latitude if neither the prescriber nor the patient paid the cost of the medicines, but the price was paid by an insurer. A customer is also price sensitive if the cost of the item represents a substantial percentage of a customer's total expenditure. The choice of the target market becomes very important. In generic terms, a wealthier segment would be less price sensitive and should be targeted. Industrial marketers can target such customers for whom their product will be minor purchase in comparison to the other purchases that they make. If the buyer is not the end user and he sells his end product in a competitive market, price pressure from further down a distribution channel ripples back up through the chain. For instance, one steel producer was able to obtain good margins by selling a component to buyers who then produced specialty items for end users. Buyers of the specialty item were less price sensitive. Selling that same component to buyers who made products for commodity-like markets meant lower realized prices as the end users were more price sensitive. Therefore the company will have to evaluate Black Ice Software LLC Demo version 386 the price sensitivity of its customer's customers and target such customers whose own customers are less price sensitive. The customer is more likely to be price sensitive if he is able to judge quality without using price as an Indicator. A customer's price sensitivity will be more also if the product is one for which it is easy to make comparisons. For instance, it is easier to compare cameras than it is to compare computers. A customer will be more price- sensitive if there is limited difference between the performance of products in the category. A company will have to make it difficult for customers to evaluate quality and make comparison. A company should desist from using purely functional attributes as competitive parameters. In most categories, with sorrie ingenuity, products can be imbued with some sense of style. fashion, colour, sensuality and grandeur. Customers will be unable to put a monetary value to these attributes. In hard-to-judge categories such as perfumes, price has little impact because the customers assume that high price and high quality go together. A customer will be price sensitive if he can easily shop around and assess the relative performance and price of alternatives. Advances in information technology will enable customers to increase their awareness of prices and access to alternative options. Price sensitivity of customers is going to increase in a

to deny access to one's product, or information about it, as the customer may just refuse to buy unless he has made the required comparisons. The only solution will be to imbue the product with elements of style, fashion and sensuality which will make comparisons difficult. A customer will be price sensitive if he can take the time he needs to locate and assess alternatives. For instance, in an emergency, the speed of delivery will be crucial. Price will not be the primary factor determining the purchase. A sense of urgency has to be created in the buying situation. Products may have to be phased out more regularly and threats of impending stock-outs should sound real. A customer will be price sensitive if he can switch from one supplier to another without incurring additional costs. A customer will also be price sensitive if the long-term relationship with the company and its reputation are not important and the customer's focus is on minimizing the cost of the particular transaction. Easing	wide range of products and services. It will be dangerous to deny access to one's product, or information about it, as the customer may just refuse to buy unless he has made the required comparisons. The only solution will be to imbue the product with elements of style, fashion and sensuality which will make comparisons difficult. A customer will be price sensitive if he can take the time he needs to locate and assess alternatives. For instance, in an emergency, the speed of delivery will be crucial. Price will not be the primary factor determining the purchase. A sense of urgency has to be created in the buying situation. Products may have to be phased out more regularly and threats of impending stock-outs should sound real. A customer will be price sensitive If he can switch from one supplier to another without incurring additional costs. A customer will also be price sensitive if the long- term relationship with the company and its reputation are not important and the Black Ice Software LLC Demo version 387 customer's focus is on minimizing the cost of the particular transactio. Easing

W http://www.distanceeducationju.in/pdf/mcom2.pdf

143/151 SUBMITTED TEXT 48 WORDS	100% MATCHING TEXT 48 WORDS
process of procurement for the customer by taking responsibility of maintaining enough inventory with the customer and ensuring automatic replenishments will bind the customer to the seller. He will not be sure if the next supplier will do so much. The seller will have to prompt the customer to 190	process of procurement for the customer by taking responsibility of maintaining enough inventory with the customer and ensuring automatic replenishment will bind the customer to the seller. He will not be sure if the next supplier will do so much. The seller will have to prompt the customer to

W http://www.distanceeducationju.in/pdf/mcom2.pdf

144/151 SUBMITTED TEXT 111 WORDS	98% MATCHING TEXT 111 WORDS
invest in the relationship. Joint efforts and exercises to increase quality and productivity will keep the customer interested in the relationship. The customer should be made to feel that he is getting more than the product or the service that he is buying from the seller. The seller has to create a web of services and interactions around the product sold and shift the customer's attention from the product. Sadly most companies take the level of their customers' price sensitivity as something they cannot do anything about and shudder to increase prices even for very legitimate reasons. But companies can take steps to reduce the price sensitivity of their customers and thus be able to charge higher price. 8.13	invest in the relationship. Joint efforts and exercises to increase quality and productivity will keep the customer interested in the relationship. The customer should be made to feel that he is getting more than the product or the service that he is buying from the seller. The seller has to create a web of services and interactions around the product sold and shift the customer's attention from the product. Sadly most companies take the level of their customer's price sensitivity as something they cannot do anything about and shudder to increase prices even for very legitimate reasons. But companies can take steps to reduce the price sensitivity of their customers and thus be able to charge higher price. 14.4.1

W http://www.distanceeducationju.in/pdf/mcom2.pdf

145/151 SUBMITTED TEXT 42 WORDS	88% MATCHING TEXT 42 WORDS
Initial prices for any product must be established after analyzing the cost structure of the company, gauging the costs of the competitors, and understanding the value propositions desired by the customer in the intended market. These initial prices undergo changes with changes in any	Initial prices for any product must be established after analyzing the cost structure of the company, gauging the cost's of the competitors, and understanding the value propositions desired by the customer in the intended Black Ice Software LLC Demo version 402 market. These initial prices undergo changes with changes in any

W http://www.distanceeducationju.in/pdf/mcom2.pdf

146/151 SUBMITTED TEXT 42 WORDS	100% MATCHING TEXT 42 WORDS
Most companies do not have a formal organizational structure, like a department, in place whose prime responsibility is to manage pricing policies in the company. Prices can be set by a lower level functionary in an accounts department as well as by the chief executive.	Most companies do not have a formal organizational structure, like a department, in place whose prime responsibility is to manage pricing policies in the company. Prices can be set by a lower level functionary in an accounts department as well as by the chief executive.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

147/151 SUBMITTED TEXT 33 WORDS	91% MATCHING TEXT 33 WORDS
Every marketing activity shapes the pricing strategy of a firm. For instance, technological advancement of a product or packaging, promotional expenditure, distribution coverage etc. impact the final prices at which products are sold to customers.	Every marketing activity shapes the pricing strategy ofa firm. For instance, technological advancement of a product or packaging, promotional expenditure, distribution coverage etc. impact the final prices at which products are sold to customers.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

148/151 SUBMITTED TEXT 84 WORDS	87% MATCHING TEXT 84 WORDS
Product life cycle (PLC) emphasizes the need for product planning. There is need to replace old products with new ones. There is a need to analyse the balance of products. A company with all its products in the mature stage may be generating profit today but as the products enter decline stage, profits may fall. A nicely balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage, and there should be reasonable prospect of new product launches in	PRODUCT LIFE CYCLE PLC emphasizes the need for product planning. There is a need to replace the old product with new ones. There is a need to analyze the balance of product. A company with all of its product in the mature stage may be generating profit today but as the product enter the decline stage, profits may fall. A nice balanced product array would see the company marketing some products in mature stage, a number of them in the growth stage and there should be reasonable prospect of new product launches in

W http://www.distanceeducationju.in/pdf/mcom2.pdf

Ouriginal by Turnitin

149/151	SUBMITTED TEXT	54 WORDS	100%	MATCHING TEXT	54 WORDS

A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently, runs the risk of being charged with always rising its prices. 18.

A company increases its price by small amounts in stages. Customers do not notice and continue to buy. Customers do expect prices to go up incrementally, so a small price hike does not alarm them. But a company which resorts to price hikes very frequently runs the risk of being charged with always rising its prices.

W http://www.distanceeducationju.in/pdf/mcom2.pdf

150/151	SUBMITTED TEXT	30 WORDS	100%	MATCHING TEXT	30 WORDS

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor's price cuts,

Price cuts are likely to be ignored in conditions of rising costs, excess demand, and when servicing price insensitive customers. Premium price positions may be reluctant to follow competitor’s price cuts,

W http://www.distanceeducationju.in/pdf/mcom2.pdf

151/151	SUBMITTED TEXT	16 WORDS	100%	MATCHING TEXT	16 WORDS

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 19.

would be incompatible with brand image. Price cuts may be resisted by companies using harvest objective. 14.7

W http://www.distanceeducationju.in/pdf/mcom2.pdf